

PREM

15

369

PART.....4.....ends:-

G Rippon to P.M. + encl

26.3.71

PART.....5.....begins:-

Rome to FCO Tel No. 218

27.3.71

Cabinet Document


The following Cabinet document, which was enclosed on this file, has been removed and destroyed.

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Reference: CM(71) 15th Conclusions, Minute 2 (Extract)

Date: 18 March 1971

Signed Wayland Date 18/12/00

 J R Green
Prime Minister's Office Records
Hepburn House
Marsham Street

1A²⁹/3

Prime Minister

MEETING BETWEEN THE PRIME MINISTER AND THE FRENCH PRESIDENT

At your meeting in the House on 23 March, you asked for an analysis of the possible advantages and disadvantages of a visit to Paris in the near future and what we would expect to result from such a meeting.

2. My own conclusions are:

- (i) that, if it were possible, on balance it would still be to our advantage to arrange a meeting between you and the President in the latter part of April;
- (ii) but we are inclined to think that Pompidou may not want a meeting until the latter part of May or early June;
- (iii) we shall only get a meeting in April if we press for it; we might not get it then; and there are obvious disadvantages about being seen to press for it too strongly;
- (iv) a meeting in late May is going to be a difficult operation to handle successfully. Prestige will be involved on both sides. It may be difficult at that later stage to avoid what would almost amount to a detailed negotiation of outstanding issues with Pompidou, and this would increase the difficulties and the danger of something going wrong. There could hardly be a second summit meeting with Pompidou to retrieve failure;

/(v)

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- (v) in all the circumstances I think we should go for a bilateral meeting in April. It would seem best to avoid a bilateral meeting with him after the middle of May. If a high level meeting is required at a later stage to break deadlock in Brussels, it should be a multilateral meeting (of the Six or the Seven or the Ten);
- (vi) whether you met Pompidou in April or later, your meeting would have to cover subjects not involved directly in the negotiations;
- (vii) whatever the date of the meeting you would have to convince Pompidou that Britain and France could work together in Europe. Putting over this conviction would be more important than anything else, and recall the meeting between Adenauer and de Gaulle at Bad Kreuznach in 1958, which laid the foundation for subsequent Franco-German co-operation;
- (viii) you would also want to convince Pompidou that we are an economically viable partner. Pompidou will be briefed on our economic instability and weakness;
- (ix) Pompidou will expect something on defence;
- (x) Pompidou will also look for some assurance regarding the future of the sterling area. It will be for consideration how far general assurances will suffice. Any attempt by Pompidou to exact a detailed agreement on the future of the sterling area and sterling balances might well amount

/to postponing

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to postponing a decision on the outcome of the negotiations until the Autumn or later with all the risks involved;

(xi) Pompidou may also raise the position of the French language in the enlarged Community; and perhaps the transfer of the Community's institutions to Paris;

(xii) as regards the issues being negotiated in Brussels, I am sending you a separate minute dealing with the sort of package we might expect to emerge from a successful negotiation. Broadly we hope the French will give ground on sugar and this might therefore not have to be discussed with Pompidou. At an April summit you could assure Pompidou that, if we get satisfactory arrangements for New Zealand and Community finance we would be ready to meet French views on Community preference in the agricultural field on the basis more or less of the proposal the Community had made to us. At a meeting in May or June we might have to agree the outcome in greater detail.

This will come next week after discussion between departments.

*M
26/3*

3. We must accept the risk that if we press Pompidou for a bilateral summit in April, he could find reasons for avoiding a meeting altogether, or he could allow the meeting to take place without result, or he could use our approach as a means of proposing a meeting in May rather than April. In seeking a meeting in April, we could represent to Pompidou the importance of your getting together and discussing the broad issues facing Europe as you will have done with Brandt and will be doing with Colombo. This affords an obvious

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/opportunity

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opportunity to discuss as well the main outstanding questions in the enlargement negotiations, in advance of the Ministerial meetings in Brussels in May, and at a time when there is no atmosphere of crisis.

4. I think we should avoid for the moment accepting any counter-proposal from Pompidou for a bilateral meeting in May, and we should make this clear when we propose April. This would mean that, if the negotiations in Brussels were to reach deadlock in May/June, any high level rescue operation would be a multilateral affair. There are disadvantages from our point of view in a summit of the Seven or Ten preceded by a summit of the Six. But I feel that these disadvantages are small compared with the dangers involved in attempting to settle outstanding questions direct with Pompidou in an atmosphere of crisis in May/June.

5. I imagine you will want to discuss this question frankly with Brandt, who might himself be prepared to press Pompidou to agree to a bilateral meeting with you in April.

6. I am myself going to Rome this weekend, and shall be seeing Colombo as well as Moro. I shall not raise the matter but to judge from what the Italian Ambassador said to me yesterday the Italians are very interested in the idea of your meeting Pompidou and may refer to the possibility.

7. The Community are meeting again on 30 March, and I will minute you again about this before your meeting with Brandt.

8. I have shown this minute to the Foreign and Commonwealth Secretary who concurs.

G.R.

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(GEOFFREY RIPPON)
26 March, 1971

Prime Minister

X / Agreed.
But we cannot be
certain about French
motives. (H) 14/4

1 I have seen a copy of the Chancellor of the Exchequer's note to you on the significance of the French move on sterling at the EEC Permanent Representatives' meeting in Brussels on 18 March. I am writing to say that I share his views.

2 We can only guess at the French motives but, at this stage, it would seem right to keep an open mind. It may be that President Pompidou's decision to raise the question of sterling in this way is consistent with the view that he has realised that the negotiations are reaching their crucial phase, and that the French have to make their position on sterling clear now if they are to do it at all. In regard to the publicity this action has received, the best evidence we have is that this time the leak did not come from them.

3 The first reactions of the Five to the French statement appear to have been on the whole negative. We have been told by the Dutch, who have long been our most candid informants as well as our staunchest supporters among the Six, that their conclusion was that the statement was indicative of French willingness to see the Community enlarged. It was significant that the text did not make the balance of payments an issue. The Dutch also agree that the relaxed line we have been taking is the correct one.

S E C R E T

4 In Brussels I think I should continue to insist that only matters of direct concern to the negotiations, such as transitional arrangements in regard to capital movements, should be subject to negotiation; and that any other issues which the French raise over sterling should be discussed separately in more discreet fashion and if necessary elsewhere. / X

5 I am sending copies of this to the Foreign and Commonwealth Secretary and to the Chancellor of the Exchequer.

G. R.

(GEOFFREY RIPPON)

R/ 26 March 1971

CONFIDENTIAL

NOTE OF CONVERSATION BETWEEN
THE CHANCELLOR OF THE DUCHY OF LANCASTER
AND THE FRENCH AMBASSADOR
FOREIGN AND COMMONWEALTH OFFICE
26 MARCH 1971 at 1100 hours

The French Ambassador called on the Chancellor of the Duchy this morning for a general talk about the state of the negotiations. He stayed for about an hour. He said that he would be returning to France next week on the occasion of Princess Margaret's visit, and would be seeing both President Pompidou and M Schumann. Before going he thought it would be valuable to hear Mr Rippon's views on the present state of play.

Sterling

2 Mr Rippon referred to M Boegner's statement on sterling to the Permanent Representatives on 18 March. M de Courcel said that his Government much regretted that there had been a leak. They were entirely innocent themselves. The French position was clear. Ever since 1967 the French had thought - and said - that the problem of sterling must be discussed in the context of the negotiations for British membership of the Community. President Pompidou had emphasized his personal interest in the whole subject when he saw the Prime Minister in Paris on the occasion of General de Gaulle's funeral. The Community itself had agreed on a common position on the subject on 11 June. Mr Rippon replied that the British took as their text M Harmel's statement to the Community on 30 June in which a clear distinction was made between subjects which were proper for the negotiations, and the economic, monetary and financial problems which would be dealt with in discussion between the parties.

3 Mr Rippon said that, questions of procedure apart, we were not unduly disturbed by the substance of M Boegner's speech, and

thought it perfectly reasonable that he should have made these points. His statement formed part of the process of discussion which had begun with the submission of the Community questionnaire and our replies to it. We thought that the problem of capital movements, which had been mentioned by M Boegner on 18 March, came into the negotiations proper; but the reserve role of sterling and the sterling balances went much wider and concerned other countries, and obviously required different treatment. This did not mean that we denied their relevance to the negotiations or were unwilling for full discussion. As for the Basle arrangement, the French were not parties to it, and therefore did not have to concern themselves with its renewal.

4 M de Courcel said that the French were not trying to be unhelpful. They agreed that there were certain questions which had to be dealt with in the Group of Ten. They were ready under certain conditions to participate in the Basle arrangement when Britain became a member of the Community. But there was a major problem which could not in all honesty be dissociated from the enlargement negotiations. The French believed there was a certain incompatibility between membership of the European Community and international responsibility for a reserve currency. In their view the points raised by M Boegner should come within the scope of the negotiations and, although solutions to all these problems could probably not be found before the negotiations were concluded, some British commitments were called for before the negotiations could hope to succeed. The French were not asking for rapid changes in the reserve role of sterling and still less in the present international monetary system, but simply for some commitments that certain problems which we all recognized would be tackled by Britain in a certain way - for example by agreeing to begin to reduce the sterling balances - to ensure that at the end of the day the enlarged Community would be able to go forward towards economic and monetary union with all which that implied.

5 Mr Rippon said that the British were ready for full discussion

of these issues with the Community, but they respected the rules set out in M Harmel's statement of 30 June, and did not want such discussion to take place in the Brussels market place. The leaks which had already taken place over the questionnaire showed how little we could trust Brussels security. M de Courcel asked if the British would be willing to link the results of these discussions directly with the negotiations. Mr Rippon said that changes in the role of sterling flowed automatically from British membership of the Community. We did not want this very delicate issue, which could be settled amicably in its own way, to get involved directly in the negotiations. He hoped and believed that discreet discussion of the kind referred to by M Harmel would lead to a broad measure of agreement.

6 M de Courcel said it was evident there was some disagreement between the British and French Governments. Mr Rippon said he hoped not. We were dealing with the Community, and the Community's views had been expressed to us. The French now seemed to be taking a view which was different from that of their partners. M de Courcel said that the Community would have to take up a position on the matter. He did not think that the French would be alone. In any case it was not a bilateral matter between Britain and France. The French Government's interpretation of M Harmel's statement of 30 June was not the same as the British one. Mr Rippon said it would be very foolish for us to have a dispute over this when we were agreed that the problem was real and needed thorough examination between us.

Community Preference

7 M de Courcel raised the question of Community preference. He said that it was of great importance to his Government to be able to show the French that while France was opening her market to British industrial products, so Britain would be opening her market to French agricultural ones. Mr Rippon said that he

was glad this problem had not so far made the headlines. It was practical and technical. We had agreed on parallelism in the transitional period, and on the need to work out a balance of mutual advantage. We had to avoid unduly abrupt changes in our trading patterns and avoid damaging third countries; but we accepted the principle of Community preference and would apply it as quickly as we could. M de Courcel said that so far as he understood the problem it related only to relatively few products. The French were not asking for Community preference to be applied from the moment of entry but did want there to be quick and tangible progress.

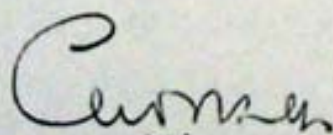
Commonwealth Sugar

8 M de Courcel said that the French were disappointed that it had not been possible to reach agreement on sugar at the Ministerial meeting on 16 March. There were however very considerable problems about undertakings to continue to import present quantities of sugar from the Commonwealth developing countries. His Government had looked at the problem and concluded that there should be negotiations this year to establish at least the outlines of the Community's sugar policy after 1974-5. The French had held down their sugar production under the existing regime but the other members of the present Community had increased theirs. If the others were going to produce more sugar, so should France, who had her vocation sucrière. Mr Rippon replied that we could say that Britain also had a vocation sucrière. But we had limited production and would go on limiting it in order to help our traditional Commonwealth sugar producers. We had made a major concession in agreeing to phase out Australian sugar import quotas, and were convinced that with increasing consumption there would be room in the enlarged Community for imports of present quantities of sugar from the developing Commonwealth. M de Courcel wagged his head and said that the problems raised by Commonwealth sugar and even more by New Zealand dairy products were very difficult problems.

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Conclusion

9 In leaving, M de Courcel said that he was as ever an optimist about the outcome of the negotiations. In fact he radiated his habitual gloom, and stuck pretty closely (apart from his perhaps incautious remark about Community preference) to his official brief.


(C C C TICKELL)

26 March 1971

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RECORD OF TALK BETWEEN THE CHANCELLOR OF THE DUCHY OF LANCASTER
AND THE ITALIAN AMBASSADOR: FOREIGN AND COMMONWEALTH OFFICE

25 MARCH 1971 at 1715 hours

The Rt. Hon. Geoffrey Rippon, QC, MP
Mr. Tickell
Mr. Stitt

HE Signor Manzini
Signor Vattani

Signor Manzini apologised for the fact that Signor Natali, the Italian Minister of Agriculture, had been unable to make his planned visit to London today as the meeting of the EEC Ministers of Agriculture in Brussels had lasted until noon. A compromise had been reached at that meeting allowing for small increases in prices of between 3% and 6% and increased expenditure on structural improvements for agriculture, which should, he said, help British hill farmers in due course. Mr. Rippon expressed his satisfaction.

2. Signor Manzini said that he had just returned from Rome and that Signor Moro was very much looking forward to Mr. Rippon's visit on 29 March. Mr. Rippon said it was important not to take our friends for granted but to demonstrate our closeness.

EEC Negotiations

3. Signor Manzini said that the final package in the negotiations was now becoming clear, that agreement on New Zealand and sugar could be found and that an agreement on financial arrangements would then follow. But what were French motives in now raising the sterling issue? President Pompidou had given various assurances to Prime Minister Colombo and Chancellor Brandt, but at the last meetings in Brussels, particularly à Six, it had been evident that M. Schumann had had absolutely no freedom of action. M. Schumann's visit to London in May would follow the next session of negotiations. The Italians were always very much in favour of HMG's making direct approaches to the French. Mr. Rippon said that the impression that the negotiations should be settled by a deal between Britain and France must be avoided. After the Community

/had told us

had told us what mattered most to it, we had moved towards the Community by accepting the direct incomes system, the common agricultural policy and other things described to us as of fundamental importance. Now it was time for the Community to move towards us.

4. Signor Manzini asked if the French were looking simply for the best terms or whether their behaviour reflected continued political prejudice. Mr. Rippon said that he thought that the public's response to the French statement on sterling had been an over-reaction. It had always been expected that the French would raise sterling. The way in which it was done was perhaps unfortunate. The exchanges between us and the Commission on the questionnaire were only a beginning, but the leaks endemic at Brussels suggested that perhaps another forum, including perhaps central bankers, might be preferable. However capital movements could be discussed in Brussels.

5. The main problems in the transitional arrangements were to ensure that damage was not done to British agriculture, that agricultural prices did not rise too sharply and that relations with third countries were not affected. What was sought was a balance of mutual advantage. Signor Manzini suggested that when President Pompidou had made his statement in The Hague in 1969 he had not fully thought out the consequences. His suggestion that the British proposal for the initial contribution to the budget was ridiculous might confirm this. Mr. Rippon said that it was at the Community's suggestion that we had talked in percentages rather than figures, although in the House of Commons he had put forward figures in a very wide bracket. Initially the key percentage had seemed to be the final one, to which we built up. This the Commission now put at nearer to 20% than to 25%, and told us that our receipts would be between 10% and 15% rather than 6%. Apart from our contribution to the budget, British membership might cost us between £200 and £300 million across the exchanges. The suggestion that our contribution would at any time fail to cover our share of the running cost was untrue. On 2 February the Ministers had said /that they would

that they would put forward new proposals: on 16 March they did not. Could they not read their own minutes?

6. Mr. Rippon and Signor Manzini agreed that perhaps some French officials were more rigid than their political leaders. Mr. Rippon said that President Pompidou had surely acted in good faith at The Hague in 1969. Certainly the reasons which President de Gaulle had put forward against British entry no longer carried such weight with M. Pompidou. Signor Manzini said that the problems were political and no longer economic. Several of the older Gaullists were perhaps presenting a political problem to M. Pompidou who did not have the same authority as General de Gaulle. Perhaps things would be better now that the French local elections had taken place. Progress could be made by talking directly to him. Mr. Rippon asked who should do the talking. Signor Manzini did not answer, but said that M. Schumann who was doing the negotiating had limited freedom of action. The best thing was perhaps that during the next session of negotiations in Brussels M. Schumann would be returning to Paris to report to a meeting of the French Cabinet.

Visit to Rome

7. A discussion followed on arrangements for Mr. Rippon's visit to Rome between 27 and 30 March. Signor Manzini said that he was sad that Mr. Rippon had not been able to fit in a lecture to the Italian equivalent of Chatham House. Mr. Rippon said that he felt that he could not do such a gathering justice in his timetable. He agreed to go to Rome at a future date to talk to the organisation.

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14



Chancellor of the Duchy of Lancaster

AM

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

25 March 1971

Prime Minister,

Dear Peter,

AM.
26/3

HM Ambassador in Paris sent Robert Armstrong a copy of his letter of 24 March to Sir Con O'Neill about his talk last week with Jean-François Deniau.

I think that you should see the enclosed account from a French source of Deniau's earlier talk with President Pompidou. In particular, it gives rather more detail about Deniau's implications of Pompidou's interest in subjects outside the strict scope of the negotiations, especially as regards defence.

Yours sincerely

C. C. C. Tickell

(C C C TICKELL)

Enclosures

P JS Moon Esq

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13 A

Sir C O'Neill

* indicates passages throughout
deleted and returned under
Section 2 (4). J.R. Green 27/3/01

DENIAU, POMPIDOU AND THE CONCLUSION OF THE NEGOTIATIONS

Deniau has been trying to arrange to see Pompidou since shortly before Christmas to get a line from him about his attitude to enlargement negotiations. Deniau had the impression that Jobert and Bernard were on their own responsibility denying him a meeting, and he finally arranged to see Pompidou ostensibly on African affairs through Foccart on 12 March.

2. A well-tried source, * ~~~~~ * told me on 15 March * ~~~~~ *

* ~~~~~ * after ten minutes of discussion about Africa, Pompidou switched the conversation to Britain's entry and said that this was an affair which must be finished. He raised sterling as a particular difficulty. Deniau took the opportunity to relate to Pompidou personally what Mr Heath had told him at Chequers at the beginning of January on defence; and Deniau left with a rather undecided impression of Pompidou's basic attitude to enlargement, but not a pessimistic impression. Deniau subsequently saw Brunet and Bernard, and they both gave him a markedly less good impression. This struck Deniau particularly because Schumann was coming out from Pompidou's office when Deniau went in on 12 March.

3. My friend * ~~~~~ * gave me the following further details and impressions today.

4. In the light of Deniau's talk with Pompidou, Deniau is convinced that Pompidou is not thinking in terms of a meeting with Mr Heath towards the end of May, not in the latter part of April.

* ~~~~~ * "after Pompidou's visit to Brussels" (which I believe is 24 - 27 May). This impression left Deniau "worried". It meant either that the May Ministerial meetings in Brussels would accomplish little or nothing, because it would be known by then that a bilateral summit was in prospect, or it would take place in an atmosphere of crisis with all eyes on the outcome and prestige involved publicly on both sides. Indeed even under

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the former hypothesis, it would be much less easy to present a meeting as late as the end of May as being a more or less routine meeting between the two Heads of Government.

5. As regards the French position, Deniau said that Schumann now had authority (given to him last week) to "give" on sugar on either 30 March or 10 May (discretion being left to him as regards the date), but there would be no give in any other part of the French position until after the end of May. (All this seems to me an interesting side comment on Boegner's attitude over the May dates at today's meeting of Deputies.)

6. As regards the subjects for a bilateral summit between the Prime Minister and Pompidou, Deniau had referred to the following five things (he had specifically attributed comments on (i), (ii), (iv) and (v) to Pompidou, but had not specifically attributed to Pompidou the comment on (iii). But my friend felt confident that (iii) nevertheless reflected Deniau's impression from his meeting with Pompidou):

- (i) Defence: from the French point of view it was not going to be enough for the British to tell Pompidou that we would approach the Americans, or even that we had approached them. Pompidou would expect some concrete offer to be made to the French in this field;
- (ii) the French language: we would be expected to agree that all personnel recruited for any of the European Community institutions after our entry would be able to speak French;
- (iii) the Seat of the Communities: Deniau had said that he thought Paris would expect an assurance from London that we would be prepared to see the seat of all the Community institutions moved to Paris. Deniau had commented that this was something which Schumann would never put forward, because of his personal relations with Pflimlin, but "of course" Pompidou did not give a damn for Pflimlin's sensibilities. [Pflimlin would of course be opposed to moving the European Parliament from Strasbourg to Paris];

SECRET

(iv) Sterling: see paragraph 7 below;

(v) the main subjects remaining on the table in Brussels - no doubt New Zealand, Community finance and perhaps Community preference, but see paragraph 8 below.

7. As regards sterling, Deniau had anticipated, after seeing Pompidou on 12 March, that the latter would insist on precipitating the sterling question in Brussels, and a restricted meeting of French Ministers had already then been fixed for 20 March. This meeting had been advanced to 17 March at the last moment, in the light among other things of news from Bâle about our approach to other central banks on renewal of the Sterling Agreements.

Pompidou had been angry because this issue had been allowed to come up in Bâle without the French having made their position clearer in Brussels. Deniau commented that Giscard and the French Finance Ministry had been dragging their feet, and Giscard had been very reluctant to put forward any proposals to the Elysée, although they had been asked for. The result of the meeting on 17 March had been that Bernard had been told to draw up instructions that night for Boegner to use the next day. Deniau claimed to have had information about the first draft produced by Bernard, and to have persuaded Bernard to moderate it in one or two respects. (My friend had only been given one example.) I asked about Barre's position. My friend said that of course Barre too "got his instructions". But much of Barre's statement was his own work, and the work of his people - they (and Kergorlay was one of them on this subject) wanted to ensure that the forum used was the Monetary Committee. The Quai had been delighted by Bernard's telegram, and Boegner had made the most of it. Deniau took the view that this would have to be settled as soon as possible, if the rats were not to get at it. It could be settled in four lines by a text beginning "It goes without saying that . . ." and giving the essential general assurance regarding the Sterling ~~and~~ ^{balances} and perhaps the operation of Articles 108 and 109.

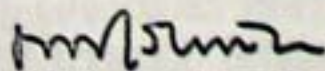
8. Deniau *~~~~~* had had dinner with Mr Soames in Paris on (I think) 19 March. He claimed that Mr Soames had made two important observations to him. First, it was

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already agreed in London that the British would accept full Community preference from our entry into the Communities; and second, that London was certainly prepared to accept a move of the Community's institutions to Paris. My friend added that, on the question of Community preference, Pompidou had told Deniau that acceptance of full Community preference from the moment of our entry was not a matter for discussion with the British in Brussels: it was something we simply had to accept.

9. It may be worth recording here one other remark which Deniau made ~~~~~~~~~ immediately after his 12 March meeting with Pompidou. Deniau said that Houphouet-Boigny had told Deniau earlier this year in a very matter-of-fact way that he understood that the negotiations for enlargement would fail. Deniau asked him what gave him this conviction, and Houphouet-Boigny replied that Pompidou had told him so. Deniau's conclusion from this was more that Pompidou was sowing confusion than that he had necessarily meant it.

10. Obviously the above is delicate and I hope no hint of it will get back to the French.



J A Robinson

24 March 1971

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25 March 1971

The Prime Minister was grateful for the minute which the Chancellor of the Exchequer sent him on 24 March about the significance of the French moves on sterling.

The Prime Minister has commented that it may be right that the French attitude remains enigmatic, and that recent developments afford no firm evidence one way or the other. I gather that nothing could be read into the attitude of Monsieur Wormser's paper when the renewal of the agreements was discussed at Basle. France is, of course, not a party to them. But Thursday's statement in the Permanent Representatives' Committee was widely reported in most, if not all, of Friday's newspapers. It is the way in which the French have done this and the forum in which they have chosen to raise the question which, in the Prime Minister's view, almost make it a hostile act.

I am sending copies of this letter to Graham (Foreign and Commonwealth Office) and Tickell (Chancellor of the Duchy of Lancaster's Office).

Signed (R.T. Armstrong)

W.S. Rylie, Esq.,
H.M. Treasury.

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Treasury Chambers, Great George Street, S.W. 1

01-930 1234

PRIME MINISTER

X being for live, by as LY surely Thursday
 statement was in the Friday paper? But it is the
 way the French have done this & the Forum where
 they don't raise the question which doesn't
 look like a hostile act. DA²⁴

You might like to have my views on the significance of the French moves on Sterling and the E.E.C. last week insofar as they affect our views on the future of the negotiations.

The questions which were raised in the meeting of the Permanent Representatives on Thursday were ones which we have known throughout we should have to answer, and those at the Treasury do not find it really surprising that the French should have brought them forward at this point. They are admittedly difficult - we have, of course, known this throughout - but, considered fairly, I do not feel that the tone of the French statement was either unreasonable or hostile.

We have, of course, also seen the text of M. Barre's comment on our replies to his Questionnaire. The tone of this is certainly critical; on the other hand, we deliberately put in answers which included no unpublished material and which therefore we knew would not satisfactorily deal with the issues the Six want to discuss. At a quick

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glance, M. Barre's paper, though critical, does not seem unfair, and the questions which he wishes to discuss further again do not seem particularly hostile.

Y | It seems to me, therefore, that these moves do not
of themselves provide any evidence that the French have
introduced these questions now in order to disrupt or delay
the negotiations. They could of course use them in this
way, and there is admittedly no evidence either that they
will not do so. On the whole, I should have thought that
the fact both Thursday's statement in the Permanent
Representatives meeting and M. Barre's commentary leaked
rather slowly and piecemeal was mildly encouraging. To
X | my mind, the French attitude remains as enigmatic as ever,
and the recent developments afford no firm evidence one way
or the other.

I am sending copies of this to the Foreign and Commonwealth
Secretary and the Chancellor of the Duchy of Lancaster.

RB.
R/ 24 March, 1971

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A²⁵h



BRITISH EMBASSY,
PARIS.

24 March, 1971.

Dear Con,

--- Herewith a copy of the record of a conversation I had with Jean-François Deniau last Friday. I am sending a copy to Christofas in Brussels and to Robert Armstrong at No. 10.

I look forward to seeing
you on Monday,

Yours
Christoph

The Honourable
Sir Con O'Neill, KCMG,

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RECORD OF CONVERSATION WITH
MONSIEUR DENIAU ON 19 MARCH 1971

1. M. Jean François Deniau came to the Embassy to have a talk. He was in a relaxed and communicative mood. I was seeking information from him on 2 points:-

- (i) as a Commissioner with responsibility in the negotiations, how did he see them developing from now on?;
- (ii) since he had told me that he had had a long talk with Pompidou the day before, how he now saw the French Government's views and positions.

2. I first asked him why it was that so little progress had been made at the last Ministerial meeting. He gave me two answers:-

- (i) The British delegation had made it abundantly clear that they did not want any counter proposition put to them by the Six about Community finance at that meeting. The knowledge of this acted as a dampener on discussions among the Six. As he, Deniau, understood it, the reason that Mr. Rippon did not want any talk of figures at that meeting was because he judged it would cause Parliamentary difficulties for H.M.G.
- (ii) The talk which the six Ministers had had among themselves about sugar had taken a bad turn. The French delegation thought that they were being helpful in letting it be known that they were prepared to reconsider the figure of 500,000 or 600,000 tons as being the

/target

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target for the Commonwealth sugar producers at the end of the transitional period. The Five did not consider that the French had been sufficiently forthcoming and Monsieur Scheel had made a fairly stiff attack on French intransigence in this matter affecting the very life of under-developed countries. This stung M. Schumann, who retorted by reminding the meeting that when France had asked for similar exceptions for her formerly dependent territories the Five, led by the Germans and the Dutch, had refused to concede this on the basis that it ran counter to the concepts of the Treaty of Rome. What was sauce for the goose should be sauce for the gander. If the British sugar producing territories were to be allowed special arrangements why should not the same apply for other commodities of interest to the French ex-dependent countries? The argument then developed into something of a slanging match which was not conducive to reaching agreement.

3. I then asked M. Deniau how he saw the negotiations developing. He replied that in his view the two most difficult subjects would be Community finance and New Zealand, and he thought that these should be left to the end and would probably only be resolved at a meeting between M. Pompidou and Mr. Heath (M. Pompidou had told him that he envisaged such a meeting). I then asked Deniau when he saw this meeting taking place. He said between May and June Ministerial meetings in Brussels. I asked him whether this was

/M. Pompidou's

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M. Pompidou's view. He replied that he was not the bearer of a message from the President and he could not speak for him, but he thought that this was the way his mind was moving and it was what he, Deniau, thought would be the best timing.

4. As he saw it, agreement could and should be reached at the May meeting on sugar, Community preference and the principles which would determine the British contribution to Community finance without these being translated into figures or percentages. I then asked him how he saw all these problems being resolved, and the following is the gist of his replies.

Community Preference

He believed that the adoption of Community preference in full from the date of entry would present no problem for Britain herself. It was conceivable that there could be problems for certain commodities with third countries and that these should be left to the Commission to resolve as and when they arose. He said that the Commission's view was that the gradual introduction of Community preference was not a feasible operation. I said that as I understood it the British delegation had made certain proposals in this regard to the Commission who had agreed that they could be made to work. He confirmed that this was so.

Sugar

There were two possibilities here and it would be for the British to choose. Agreement could either be reached on the tonnage of sugar which would be imported from Commonwealth countries by the end of the transitional period, or alternatively a form of words could be arrived at to the effect that the needs and interests of the sugar-producing countries were appreciated and would be safeguarded by Community decisions taken in the future. If the

/British

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British Government chose to go for the first solution then we would have to face the fact that the tonnage agreed on would be smaller than that of the Commonwealth Sugar Agreement.

Financial Contribution

He said I would be aware of the principles which the Commission thought should govern our financial contribution and that he thought this was the right approach. He foresaw our annual contributions following a curve rather than a straight line (i.e. rising more rapidly towards the end). He mentioned "around 8%" as a possible starting figure. I asked him whether I was right in thinking that the French Government attach more importance in the early years to Community preference than to the level of the starting figure. He confirmed that this was true and said that he himself had suggested it to M. Pompidou. He added that his preference was for a 7 year transitional period for our contributions to community finance because this was where his calculations and figures brought him out.

New Zealand

I told Deniau that when Mansholt had been to see me last week-end he had told me that it was his considered view that we should have a specially long transitional period for butter, of 10 or even 12 years, in order to avoid the risk of the consumption in the U.K. being seriously reduced, and that he had told M. Schumann that he saw this as being in the interests of the Community as a whole. Deniau replied that this was the first he had heard of it and that Mansholt had certainly

/not mentioned

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not mentioned it to him. He would ask him about it when he saw him on Monday morning. He went on to say that New Zealand butter presented a serious political problem for Pompidou in that the small French milk producers felt they should not be denied what they considered would be their rights to the British market under the Treaty of Rome. Deniau realised also that this was a real political problem for us and it was for this reason that he saw it as being the most difficult of all to resolve. He could not at present foresee what the outcome was likely to be. The problem was not the same for sugar for two reasons. Firstly, only a small percentage of farmers in France cultivated sugar and they tended to be the bigger and richer ones. Secondly it was necessary for the Community to be decent and understanding in regard to the under-developed countries. But neither of these factors applied to butter.

5. I asked M. Deniau what other matters he had discussed with M. Pompidou. He replied as follows.

French language

M. Pompidou had asked him what he thought would be the effect of the enlargement of the Community on the use of the French language in Community circles. He had replied that the effect would be very bad and that undoubtedly English would become the dominant language for the following reasons:-

- (1) the four candidate countries were all "anglophone";

(11) the Dutch had up to now used the French language because they refused on principle to use German, but English came more naturally to them and once the Community was enlarged they would undoubtedly switch from French to English;

(111) the Flemish element of the Belgian delegation also preferred to speak English rather than French, and he thought that the Italians would also be quite prepared to switch to English. The French would therefore be virtually isolated with their own language.

M. Pompidou had then asked him whether he saw any solution to this. M. Deniau had replied that the best that he could suggest was that the British should give an assurance that their representatives on the Commission should all have a sufficient knowledge of the French language to be able to negotiate in it. He realised that this would probably not amount to much but it was the best that he could think of.

Sterling

M. Pompidou had told him that the last thing he wanted to do was to appear to be making a great fuss about sterling or to seem to be using it as a means of keeping Britain out of the Community. There were however two things to which he attached importance and he believed them to be real anxieties which should be shared by the whole Community including Britain. One was that with the Community working towards common economic and monetary policies it would be seriously inhibiting if one of the

/currencies

currencies had a reserve role. Secondly, he believed that the sterling balances had acted as an inhibiting factor in Britain's economic growth and well being and he would like to see them reduced. This would all be discussed in the meeting of Ministers of the Six on 30 March, and thereafter there should be discussions between the Six and ourselves.

Defence

The Impression that Deniau had got from political circles in Paris, including the Elysée, was that they were very sceptical about anything which we could offer in this field. They believed that we were tied very closely by agreements with America on nuclear matters not to divulge anything which would be of real use or interest to the French and that we would anyway call this in aid as an alibi. They had been confirmed in this belief by the attitude we had taken when the French Government sought help recently from us on a technical matter affecting French nuclear submarines.

6. I finally asked Deniau how he thought President Pompidou saw the outcome of the negotiations. He said he thought that there was no doubt that the President would sooner they succeeded rather than failed, and in any event he did not want to be responsible for their failure. In his, Deniau's, view, it would all turn in the end on the meeting between Mr. Heath and M. Pompidou. If they got on well together and arrived at agreements the negotiations were bound to succeed. If they did not they would more than likely fail.

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COVERING SECRET

9



Chancellor of the Duchy of Lancaster

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

23 March 1971

Dear Pchv,

1. I enclose as requested translations of the recent statements by MM. Boegner and Barre, about sterling and the EEC negotiations.
2. The Bank of England, who are responsible for the translations, have pointed out that the words "if necessary" in the second paragraph of M. Boegner's statement are a translation of the original "eventuellement". This is not very exact. "If need be" would be better!

Yours sincerely

(C.C.C. Pickell)
Private Secretary

P.J.S. Moon Esq.
No. 10, Downing Street

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SECRET

MY I.P.T.

FOLLOWING IS TEXT OF BOEGNER'S STATEMENT:

IN ACCORDANCE WITH THE DECISION OF 11TH JUNE 1970 REGARDING THE PREPARATIONS FOR THE TALKS WITH THE UNITED KINGDOM - A DECISION WHICH REQUIRES THE SIX TO ARRIVE AT A COMMON STANDPOINT ON THE SUBJECT OF THE ECONOMIC, FINANCIAL AND MONETARY PROBLEMS - FRANCE AS A MEMBER OF THE EUROPEAN COMMUNITY IS ANXIOUS THAT THE COUNCIL OF MINISTERS OF THE COMMUNITY, IN AN APPROPRIATE FORMATION, SHOULD BE ABLE TO MAKE A START ON 30TH MARCH WITH THE DRAWING UP OF SUCH A STANDPOINT IN ORDER THAT IT MAY BE QUICKLY COMMUNICATED TO THE BRITISH AUTHORITIES FOR THE PURPOSES OF THE DISCUSSIONS ENVISAGED ON THESE SUBJECTS.

I AM ALREADY AT THIS STAGE ABLE TO GIVE THE FOLLOWING HINTS AS TO THE FRENCH POSITION, WHICH WILL IF NECESSARY BE CLARIFIED AND AMPLIFIED WHEN THE COUNCIL OF MINISTERS MEETS ON 30TH MARCH.

1) FRANCE TAKES THE VIEW THAT, FOR ANY MEMBER COUNTRY, THERE IS A CONTRADICTION BETWEEN ITS BELONGING TO THE COMMUNITY - ESPECIALLY AS THE LATTER IS MOVING TOWARDS ECONOMIC AND MONETARY UNION - AND THE MANAGEMENT OF AN INTERNATIONAL RESERVE CURRENCY MAKING THIS COUNTRY THE CENTRE OF AN EXTRA-EUROPEAN MONETARY AREA AND SUBJECTING ITS ECONOMIC, FINANCIAL AND MONETARY POLICY TO CIRCUMSTANCES WHICH LIE OUTSIDE ITS CONTROL AS ALSO THE CONTROL OF THE COMMUNITY. THE SOUND WORKING OF THE COMMUNITY MIGHT BE SERIOUSLY DISTURBED BY ANY SUCH SITUATION. AS WE KNOW, WHAT IS IN QUESTION HERE IS A GENERAL PRINCIPLE WHICH SEEMS TO US TO APPLY TO ALL COUNTRIES OF THE COMMUNITY, WHETHER IT IS ENLARGED OR NOT, AND IS PROMPTED NEITHER BY MERE CONCERN FOR OUR OWN INTERESTS NOR BY THE SIMPLE FACT THAT NEGOTIATIONS FOR MEMBERSHIP OF THE COMMUNITY ARE AT PRESENT UNDER WAY.

THIS STANDPOINT DOES NOT ENTAIL THAT THE COMMUNITY MUST GET GREAT BRITAIN, AT THE TIME OF JOINING, TO PUT AN END TO THE INTERNATIONAL ROLE OF STERLING AND THE VARIOUS LINKS WHICH UNITE IT MONETARILY WITH ALL THE OTHER COUNTRIES OF THE STERLING AREA. BUT, TO GO TO THE HEART OF THE MATTER, IT WOULD BE NECESSARY FOR GREAT BRITAIN, DURING THE TRANSITIONAL PERIOD, TO TAKE STEPS TO BRING ABOUT A PROGRESSIVE DIMINUTION OF THE VOLUME OF RESERVES HELD IN STERLING.

2) THE EXISTENCE OF THE STERLING BALANCES, i.e. OF A SUBSTANTIAL EXTERNAL DEBT PAYABLE ON DEMAND, IS NONE THE LESS A FACT AT THE PRESENT TIME. IT FOLLOWS FROM IT THAT GREAT BRITAIN'S EXTERNAL MONETARY POSITION IS PARTICULARLY VULNERABLE AND ESPECIALLY LIABLE TO BE AFFECTED BY DEVELOPMENTS WHICH DO NOT ORIGINATE IN THE BRITISH ISLES.

WE FOR OUR PART CONSIDER THAT THE PROVISIONS OF ARTICLES 108 AND 109 OF THE ROME TREATY CANNOT BE PUT INTO OPERATION IN FAVOUR OF ANY MEMBER COUNTRY UNLESS THE DIFFICULTIES IT IS FACING STEM FROM THE DEVELOPMENT OF ITS OWN ECONOMY IN THE PROPER SENSE.

IT FOLLOWS FROM THIS IN PARTICULAR THAT IF, ONCE GREAT BRITAIN HAD BECOME A MEMBER OF THE COMMUNITY, IT WERE TO EXPERIENCE AN EXCHANGE PROBLEM AS A RESULT OF THE CONVERSION OF STERLING BALANCES BY THEIR HOLDERS, ANY ASSISTANCE WHICH MIGHT BE PROVIDED SHOULD COME, NOT FROM COMMUNITY MACHINERY, BUT FROM APPROPRIATE INTERNATIONAL ACTION. IN THIS SPIRIT FRANCE IS READY, WHEN BRITAIN BECOMES A MEMBER OF THE COMMUNITY, TO PARTICIPATE IN THE BASLE AGREEMENTS ON CONDITION THAT THE GENERAL MANAGEMENT OF THESE AGREEMENTS ALLOWS THE DEVELOPMENT INDICATED ABOVE TO BE FACILITATED.

3) FINALLY, GREAT BRITAIN'S ENTRY INTO THE COMMON MARKET MUST BE ACCOMPANIED BY THE IMMEDIATE SUPPRESSION BY THAT COUNTRY OF DISCRIMINATORY MEASURES WHICH, IN REGARD TO CAPITAL MOVEMENTS, AT PRESENT FAVOUR THE COUNTRIES OF THE WHITE COMMONWEALTH

(BASICALLY AUSTRALIA AND NEW ZEALAND) IN COMPARISON WITH THE MEMBER STATES OF THE COMMUNITY. THE MAINTENANCE BY ANY MEMBER COUNTRY OF A PREFERENTIAL SYSTEM BENEFITING THIRD COUNTRIES IN RELATION TO THE TREATMENT APPLIED TO THE OTHER MEMBER COUNTRIES APPEARS TO US IN FACT TO BE INCOMPATIBLE WITH THE PRINCIPLES OF OUR COMMUNITY. MOREOVER, BY FACILITATING EXPORTS OF CAPITAL FROM GREAT BRITAIN TO OTHER STERLING AREA COUNTRIES THIS SYSTEM TENDS, OTHER THINGS BEING EQUAL, TO SWELL THE VOLUME OF THE STERLING BALANCES AND AGGRAVATE GREAT BRITAIN'S EXTERNAL MONETARY VULNERABILITY.

I WOULD EMPHASISE THAT IT IS ESSENTIALLY THE COMMUNITY'S INTERESTS WHICH PROMPT US TO RAISE THESE VARIOUS PROBLEMS AND THAT OUR AIM IN THIS IMPORTANT MATTER IS TO GET THE COUNCIL OF MINISTERS OF THE SIX TO ADOPT, AS QUICKLY AS POSSIBLE, A COMMON STANDPOINT WHICH CAN BE USED AS THE BASIS FOR DISCUSSION WITH GREAT BRITAIN.

ADVANCE COPIES TO SIR CON O'NEILL MR. TICKELL MR ROBINSON
MR STATHAM (FCO) AND MR BELL (TREASURY).

MAJORIBANKS.

11

SECRET

Translation of Brussels Codel 199
of 19th March 1971

A 243

My I.P.T.

Following is the text of Barre's paper.

Comments on the replies of the British authorities to the Community's questionnaire of 21.12.1970.

I. On 21st December 1970 the Community presented the British delegation with a list of questions which may be classified under three heads:

- (1) Development of the British balance of payments and economic situation (questions 1 to 4).
- (2) Movement of the sterling balances since the conclusion of the Basle arrangements in September 1968 (question 5)
- (3) The question of the U.K.'s belonging simultaneously to the sterling area and to the Community (question 6).

In this note it is proposed to comment on the replies given by the U.K. on 17.2.1971 to the Community's questions.

In making these comments the Commission has been guided by the desire to single out those problems which may decisively affect the sound working of an enlarged Community and for this reason deserve deeper analysis than the British note of 17th February permits.

II. Development of the British balance of payments and economic situation.

(A) Reply to question 1.

This question is concerned with the objective the British authorities set themselves with regard to the current payments balance and the basic balance.⁽¹⁾ It was put with a view to finding out what resources the U.K. thinks it can mobilise in order to pay off its present debt and meet the obligations it may incur in the future, including those which may ensue from its membership of the enlarged Community.

In its reply to this question the British government makes no explicit reference to these last-named obligations. It states that it sets reduction of its indebtedness and some improvement of its reserves position as the priority objective. To this end it is counting on a substantial current account surplus, the size of which should also allow net outflows of long-term capital, private investments, export credits and other flows.

⁽¹⁾ Current account balance and long-term capital movements.

To illustrate this objective the British note refers to a new presentation of the balance of payments adopted recently by the U.K. government. This presentation abandons the concept of basic balance, traces the movement of all operations which give rise to external payments ("total currency flow") and comprises on the one hand the current account and on the other the capital account, which in this new definition embraces not only long-term movements, but also short-term movements.

Detailed figures compiled by this new method are supplied (tables attached to the replies to questions 1 to 4). They bring out the following main features:

- The substantial current account deficit run up in 1968 was transformed into a considerable surplus in 1969 and 1970.
- The capital account, as now presented, shows an appreciable improvement.
- The addition of the two large surpluses thus earned enabled the debts to the IMF and central banks to be reduced by £1,750 million.

On this point it is necessary to stress that the information given⁽¹⁾ does not allow an assessment to be made of the relative importance of capital movements having some degree of continuity and those of a reversible nature.

(B) Reply to question 2.

This question aimed at obtaining information on the growth rate of the British economy, the trend of productivity and the rate of investment. The movement of these items does in fact have a direct incidence on the external balance.

With regard to the growth rate the British note confines itself to saying that, on the basis of an extrapolation of the present trends of productivity and movement of the working population, some quickening of the rate of growth should begin to appear in the second half of the nineteen seventies.

According to estimates from an authorised source⁽²⁾ covering the decade 1970-1980 it appears that:

- The weak growth of productivity will remain one of the most serious problems of the British economy:
- The growth rate of the U.K.'s national product will remain below that of most industrialised countries:
- The acceleration of the growth rate of the national product will probably be modest and, unless new dynamic forces make their appearance, will derive exclusively from factors other than the raising of the growth rate of productivity:

(1) The British note gives no statistics later than September 1970.

(2) OECD/CPE/WP2(69) Document 15-17 of 4.7.69.

- There is the risk that the maintenance of the growth rate of productivity (production per man/hour) at about 3% per annum as foreseen by the British authorities may prove a relatively optimistic assumption, in the light of the present trend of investment, particularly in manufacturing.

The Commission shares the British delegation's view that U.K. membership of the Community will provide a powerful stimulus to the growth of productive investment and hence to the acceleration of productivity. Nevertheless, realisation of the progress hoped for implies that it must be possible for an increase in investment, and hence in overall demand, to be reconciled with the balance of payments objectives set out in the reply to question 1.

(C) Replies to questions 3 and 4.

These two questions aimed at ascertaining the British authorities' views on the question of the means that could be employed in the future to assure repayment of the U.K.'s debts in foreign exchange, and on the question of the future trend of short-term capital movements. These two questions are closely connected, bearing in mind that in 1969 and the first nine months of 1970 the net inflow of short-term capital enabled a large part of the debt repayment to be financed.

The replies given, and in particular the table attached to reply No.4, make it possible to identify the principal U.K. balance of payments items which allowed these repayments to be financed. They show that the proportion of the debt repayment financed by short-term capital inflows was about 45%.

So far as the future is concerned, the British note refers to movements in the aggregate classified in a way that, as has been pointed out in paragraph II(A) above, does not make it possible for precise information on the individual types of capital movement to be identified. In point of fact the partial repayment of debt by means of receipts from short-term capital inflows may well be at some risk in the future. Experience shows in fact that short-term capital inflows are of an unforeseeable and reversible nature.

This problem is a good illustration of how necessary it is to distinguish more clearly between the B/P components of a lasting nature and those not possessing this character.

III. Reply to question 5.

Question 5 was designed to elicit certain detailed information on the incidence of the Basle arrangements of September 1968 on the movement of the sterling balances held by the official authorities of the sterling area.

To help achieve the sound working of an enlarged Community, it is in fact important to be able to assess whether the amount of these

balances will tend to increase further - an eventuality which, in the light of the instability which characterises them, would inevitably in time necessitate broader support measures than those provided for in Basle in 1968⁽¹⁾.

The aggregate amount of the balances in question has risen by about £800 million in relation to the September 1968 level. The British authorities note that, in relation to the level they consider normal, i.e. the level of June 1967, this increase reduces to £478 million. They further state that, if the official balances outstanding at the end of June 1967 are expressed in dollars at the exchange rate then ruling, and the outstanding amount at the end of September 1970 is so converted at the post-devaluation exchange rate, the amount of the increase in the official balances in dollar terms drops to 202 million dollars. They deduce from this that the movement of the sterling balances after the conclusion of the Basle arrangements has to be considered normal.

However, this interpretation overlooks the fact that the overseas sterling area is generally creditor to the rest of the world. As the bilateral agreements concluded between the U.K. and the countries of this area provide for a minimum proportion of the reserves of these countries to be held in sterling balances, practically the whole of which are then covered by a dollar value guarantee, the system as now applied makes it very probable that there will be a lasting tendency for the official sterling balances to increase. The high level of interest rates paid by Great Britain to the holders of these balances further contributes to this likelihood.

Since 1969 the U.K. has thus been able to make use of the inflow of foreign exchange connected with the increase of the sterling balances of the overseas area to repay part of its short and medium-term debts. When it is remembered that the sterling balances are a debt which in principle is liquid, it follows that these repayments have not in fact improved the U.K.'s net debt position.

According to indications which should be checked with the U.K. delegation, the tendency for the sterling balances, held not only by the overseas countries of the area, but also by holders outside this area, to accumulate seems to have persisted in the last few months.

There is a risk that this trend may aggravate the instability of the system, in the light of the combination of the following factors:

- The relatively low level of the U.K. reserves (gold, foreign exchange and Special Drawing Rights: £1,111 million at 30th September 1970):
- The reversible character of the short-term capital inflows from non-sterling countries:

⁽¹⁾ The sterling balances held by "other holders" resident in the overseas sterling area are considerably lower than the official balances and so far they have presented some degree of stability: their size depends very much on the level of transactions in general and trade in particular.

- The difference between the level of the sterling balances held in the countries of the overseas area and covered by a dollar value guarantee (£3,561 million at 30th September 1970) and the "threshold" below which the sum of the official and private balances of these countries must be lowered in order that the U.K. may have recourse to the multilateral credit line made available to it by its Basle partners (£3,080 million).

It would therefore be appropriate to examine what implications these factors might have for the application, within an enlarged Community, of the Community regulations in the matter of co-ordination of economic and monetary policies and the measures to be taken in the event of difficulties, or serious threat of difficulties, in Great Britain's balance of payments.

Furthermore, the British government has just informed the Community that it is asking for a two-year extension of the Basle arrangements. This extension, which is in any event of interest to the Community from the standpoint of stability of the international monetary system, also takes on a fresh importance to the Community by reason of the risk that the terms of this extension may have a direct incidence on the conditions for the working of an enlarged Community. It is therefore very desirable that, with an eye to the international discussions on the extension of these arrangements, the member countries should adopt a common standpoint. In the Commission's view it should be for the Monetary Committee and the Committee of Central Bank Governors to prepare this common standpoint at the Council's request.

IV. Reply to question 6.

Question 6 aimed at finding out how the U.K. government proposes to reconcile its responsibilities within the "sterling area" with its obligations as a member of the EEC.

The British reply notes that the special relations which unite the "sterling area" members are different in nature and extent from those existing within the EEC and that they do not in general imply "well defined rights and obligations". It states that the U.K. government "does not foresee any difficulty in reconciling its position in the sterling area with its obligations in the EEC".

It would be useful to have more light shed on this subject, for the sterling area in fact constitutes a system of preferences some features of which are mentioned in the reply itself. As can be seen from the IMF's annual report on exchange restrictions (1970 Edition) the sterling system entails preferences in the following fields:

(A) Exchange relations: the sterling rate governs the rates of the other currencies of the area in relation to third currencies: the currencies of the area are exchanged for sterling at a fixed rate which

in some cases is a single rate corresponding to parity, and in others takes the form of a buying rate and a selling rate, also fixed, between which the spread is very small.

(B) Exchange control: broadly speaking, and with reservations regarding the tendency suggested by certain recent exceptions, U.K. transfers to the countries of the overseas sterling area are free of restriction, while those to the non-sterling countries are subject to certain restrictions: in relation to the rest of the world the overseas countries of the sterling area and the U.K. apply a harmonised set of exchange controls.

(C) Composition of the reserves: this largely results from the working of the sterling balances system.

(D) Financial relationships: preferential access by the countries of the overseas sterling area to some sources of capital within the U.K.

With regard to the sphere mentioned under (D), the U.K.'s reply recalls the declaration made by the U.K. delegation on 18th December 1970 with regard to the British desire to conform to all the obligations imposed by membership of the Community, and especially to those arising from the Community directives based on Article 67 of the Rome Treaty, during the transitional period and by the end of it at the latest.

On this last point, in its declaration of 23rd February 1971 the Community asked for talks to be started without delay. The British delegation accepted this procedure.

However, these questions fall within the wider and more complex framework of the preferential relationships built up within the "sterling area". Consequently it will be necessary for the examination of the methods of implementing the above-mentioned Community directives to range over the whole perspective.

V. Conclusions.

With its decision of 11th June 1970 on the preparations for the talks with the U.K. on the subject of the economic, financial and monetary problems, the Council agreed that the Six must establish "a common standpoint in the course of the negotiations and after having acquainted themselves with the U.K.'s position in these fields".

The Commission considers that, in order to arrive at this common standpoint, it is necessary to examine more deeply the questions which have a direct influence on the monetary and financial policy of the enlarged Community.

For these purposes, it finds that the following points should be examined with the British delegation, by whatever methods are considered most appropriate:

(A) The methods and procedures for debt repayment and strengthening of the British reserves position, account being taken of the short-term capital movements, and their implications as regards the implementation, within an enlarged Community, of the Community regulations in the matter of co-ordination of economic and monetary policies and the measures to be taken in the event of difficulty or threat of difficulty in the balance of payments.

(B) Adjustment of the preferential system of the sterling area.

With regard to the extension of the Basle arrangements, the opinion of the Monetary Committee and the Committee of Central Bank Governors should be obtained as soon as possible on the basic features of a common standpoint of the Member States, having regard to the possibility of the widening of the Community in the near future.

MARJORIBANKS

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Prime Minister
cc Mr. Barrington

Copy also filed on main EEC file.

23 March 1971

The Prime Minister spoke this afternoon with the Foreign and Commonwealth Secretary and the Chancellor of the Duchy of Lancaster about the EEC negotiations.

Concern was expressed about the latest French move on sterling. The Prime Minister felt that it was difficult not to see this as a deliberately unhelpful step.

Going on to discuss the question of the Prime Minister visiting President Pompidou in Paris it was agreed that no decision should be taken until after further discussions with Mr. Soames at the beginning of next week. Meanwhile careful analysis should be prepared of the possible advantages and disadvantages of a visit to Paris in the near future.

After the meeting the Prime Minister instructed that the analysis referred to above should include a study of what, in practical terms, we would expect to get from President Pompidou at a meeting and what we should be prepared to offer in exchange.

I am sending a copy of this letter to Barrington.

(SGD) P. J. S. MOON

C. C. C. Tickell, Esq.,
Foreign and Commonwealth Office.

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SECRET



Chancellor of the Duchy of Lancaster

European Policy 194
P.A. 7
Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440 23/3

23 March 1971

Dear Peter,

FRENCH VIEWS ON STERLING

We spoke this morning about Boegner's statement to the Permanent Representatives in Brussels on 18 March.

I have commissioned a brief on the subject for the Prime Minister. It will come as soon as possible (with English translations of Barre's and Boegner's statements), but as it will have to be cleared with the Treasury, it may take a little while. In the meantime you may like to ... see the attached minute by the Head of the Financial Policy and Aid Department in the Foreign and Commonwealth Office giving his Department's preliminary comments. Mr. Rippon thought that this was a valuable and reasonable assessment.

Yours sincerely

C. C. C. Tickell

(C. C. C. TICKELL)
Private Secretary

P. J. S. Moon, Esq.,
10 Downing Street.

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8

P.A. Am. C 22/13

Copy to :
PS to Secretary of State
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Sir C O'Neill
Mr Bottomley
Mr Ford
Mr Turpin
Mr Holland
Mr Robinson
Mr Statham
Mr Drinkall

to Chancellor of the Duchy
of Lancaster

FRENCH VIEWS ON STERLING

1. You may like to have FPAD's preliminary comments on the substance of M Boegner's statement to the Permanent Representatives on 18 March.
2. The first part of the statement sets out familiar French views. It has for some time been clear that the French consider that there is a potential contradiction between the UK's membership of the Community and her management of an international reserve currency involving her in an extra-European monetary zone and subjecting her economic financial and monetary policy to exterior influences. The statement argues that this contradiction is accentuated by the fact that the Community is proceeding towards an economic and monetary union (EMU). It is true that, once the Community have achieved EMU, it would indeed be contradictory if the UK belonged both to the EMU and to a geographically different monetary area. However, EMU is many years away and we have the intervening period in which to eliminate any contradictions: which should give us plenty of time. Meanwhile, the Community's progress towards EMU might well facilitate the resolution of the UK's European and non-European financial interests.
3. The statement goes on to say that this does not mean that the Community have to ask the UK to terminate the relationships resulting from the pound's reserve role, from the moment of entry; but it does say emphatically that during the transitional period, the UK should ensure that the size of the sterling balances should "diminish progressively". This requirement may well prove to be a crucial one in our discussions with the EEC. The French are in effect asking us to finance a reduction in the sterling balances during the period when the costs of entry will bear most heavily upon us (before the hoped-for benefits work through). This would be extremely difficult for us. We shall have to try to argue the Community off any such requirement, and perhaps into agreeing that, as a compromise, the balances should not increase during the transitional period.
4. The second part of the statement argues that, since sterling's reserve role exposes the UK to external influences, the underpinning of these balances should be international rather than

/Communautaire.

SECRET

Communautaire. In terms of Community logic, the French position here seems weak. It is on the face of it untenable to argue that the mutual support provisions of Articles 108 and 109 of the Treaty of Rome should only apply when a country's economic difficulties stem from the evolution of its own economy. The degree of economic interdependence within the Community is such that the evolution of the German economy, for example, could fundamentally upset the French balance of payments: in which case the French could legitimately ask for mutual support under the terms of the Treaty. Similarly, all the members of the EEC are vulnerable to US capital flows and the vagaries of the Euro-dollar market: which are influences exterior to the Community. On the other hand, the French can perhaps legitimately argue that, if a new member is to join the Club, he should as far as possible neutralise his external liabilities before joining. As a matter of common sense, the French want to minimise the Community's contingent liability for the sterling balances.

5. The statement then says that in this spirit, France is ready, once the UK is a member of the Community, to participate in the Basle arrangements, on condition that these arrangements facilitate an evolution in the desired direction (ie toward the progressive diminution of the sterling balances). As it stands, this is a rather curious proposition. The UK is unlikely to be a member of the Community before the beginning of 1973: however if we get a two-year extension of the Basle arrangements, they will expire in September 1973. On the face of it, it would seem that the French are offering to participate in these arrangements for their last nine months or so: a worthless offer. But this seems an unlikely interpretation: and a more probable one is that the French are prepared to envisage a further extension of the Basle arrangements, after September 1973, but with some modifications of the terms. As a medium term solution to the problem of the sterling balances a further extension of the Basle arrangements might well prove to be in the UK's interests: while some modification of them is no doubt inevitable as a price for their further extension, in the changed circumstances of UK membership of the EEC.

6. The third part of the statement calls for the termination, immediately from the date of our entry, of the present discrimination in our exchange control arrangements, favouring capital movements from the UK to the developed members of the sterling area as against those to members of the EEC. The French themselves are not immune from criticism in this field: however it seems that they are not prepared to envisage transitional arrangements for UK capital movements if those arrangements are discriminatory. If this indeed turns out to be the Community position, and we are unable to shift them from it, it may not be technically difficult for us to meet this requirement. In the context of the future of the Voluntary Programme, the Treasury have already considered arrangements which would involve the introduction of exchange control (liberally applied) against members of the sterling area, which would ensure inter alia that there would be no discrimination as between the sterling area and the EEC.

7. The statement concludes with the observation that the export of capital from the UK to other countries of the sterling area contributes to an increase in the sterling balances. The

/implication

implication is, presumably, that we should reduce such capital exports. The French probably consider that we shall not be able to afford large capital flows both to the Sterling Area and (as a Member) to the EEC; and that in consequence we shall have to cease being the Area's banker and to wind up the Sterling Area.

CONCLUSIONS

8. The French statement could have been a lot worse.
- (a) It will be difficult for us to envisage a run-down of the sterling balances during the transitional period (unless we can launch some sort of funding operation). However, we should be able to ensure that, during this period, the balances do not increase still further and the Six may settle for this. (We have not been asked to prevent an increase during the period prior to our entry.)
 - (b) It is probably in the UK's interests that there should be a further extension of the Basle arrangements after 1973, as the French seem to envisage. This might well entail modifications in the existing arrangements in a sense which prevents a further build-up of the sterling balances. (The French have not as yet raised any objection to our proposal for the extension for a further two years, of the existing arrangements.)
 - (c) The French position on capital movements is unhelpful, but it should not be too difficult for us to meet this requirement, if the Community insist on it.
 - (d) Although the French statement addresses itself primarily to the medium term, it is of course possible that the French may also try to see modifications in the short term, eg by pressing for the modification of the existing arrangements, before we join the Community.
 - (e) The French proposals do not cover the intimately related questions of where sterling holders should deposit their reserves if sterling's reserve role is ended, or of what arrangements should be made to safeguard the level of international liquidity.

R Burges Watson

R Burges Watson
Financial Policy and Aid Department
19 March 1971.

SECRET AND PERSONAL

22 March 1971

Thank you very much for your letter of 12 March.

We shall be taking stock of the case for a Prime Minister/Pompidou meeting in the light of recent developments; but I think that it is fair to say that opinion in favour here now clearly outweighs opinion against. If the decision is to go ahead, the modalities and the timing will all have to be looked at very quickly.

If it does happen, the Prime Minister thinks that a preliminary private talk with Jobert could make a lot of sense. If Jobert was coming over here at Eastertime in any case, the Prime Minister could see him in London either on Thursday, 8 April, or on the afternoon of Thursday, 15 April; for the rest of the Easter recess the Prime Minister is at present planning to be away from London.

I agree that, if this idea were to be pursued, the Foreign and Commonwealth Secretary should be aware of it. Perhaps at the point where a decision was taken about a Prime Minister/Pompidou meeting, the Prime Minister could tell the Foreign and Commonwealth Secretary that he understood that Jobert was going to be in England privately over Easter, that a private talk with him could be useful, and that he had it in mind to ask you to see if it could be arranged.

R.T. ARMSTRONG

The Rt. Hon. Christopher Soames, C.B.E.,

19 March 1971

Thank you for your letter of 18 March
with which you enclosed a note recording a talk
you had had with M. Bernard of the Elysee.
The Prime Minister has read this with interest.

PJSM

C.C.C. Tickell, Esq., M.V.O.,
Foreign and Commonwealth Office.

Top copy filed on European Policy August 1970.

CONFIDENTIAL

PRIME MINISTER

B.F. 26/3/71

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Visit to Paris

Mr. Soames has telephoned. He is coming to London for a meeting on Concorde on Monday 29 March. Before that he will be seeing M. Schumann on Friday, 26 March.

When he is here he would like to have another talk with you about the question of a visit to Paris and he expressed the hope that no final decision would be taken before he had seen you.

The best time for a meeting would be on the evening of Monday, 29 March and we have provisionally noted this in the diary.

Am.

Note

Confirmed that Mr Soames
should come at 530 pm
on Monday 29 March.

19 March 1971

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P.A.

M.

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Prime Minister

There seems to be some fairly consistent information to the effect that the Elysée would see advantage, presumably from President Pompidou's point of view, in a bilateral meeting. The question is what advantage — to break the log jam, to extract concessions from us, to reduce the pressure on France from the US, to demonstrate that their policies are not damaging to Anglo-French relations.

There would seem to be a number of possibilities not all of which would suit us. M. 18/3

SECRET



Chancellor of the Duchy of Lancaster

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

R/18 March 1971

Dear Peter,

On 16 March I lunched with Jean René Bernard in Brussels. Bernard is the Secretary General of the French Inter-Ministerial Committee on Europe, and Chargé de Mission at the Elysée. His immediate superior is Jobert, but he has direct access to President Pompidou based on long experience of working with him, both when Pompidou was Prime Minister and in the intervening period before he became President.

As you will see we had some discussion about the possibility of a meeting between President Pompidou and the Prime Minister. I think Bernard wanted me to say that it was we who were anxious for the meeting. But I did not do so, and in the end it was he who said he thought such a meeting would be necessary if the EEC negotiations were to be successfully concluded (see in particular paragraphs 4 to 5 of my record).

Yours sincerely

George Tickell

(C.C.C. TICKELL)
Private Secretary

P.J.S. Moon Esq.,

Sir C. O'Neill

President Pompidou and the EEC Negotiations

I lunched today with M. Jean René Bernard (Secretary General of the French Inter-Ministerial Committee on Europe, and Chargé de Mission at the Elysée). We had a general talk about the state of the enlargement negotiations.

2. We spoke first about the Chancellor of the Duchy's visit to Canada and the United States and the American attitude towards enlargement of the Community. I made the point that it was not always appreciated in Brussels that we were negotiating on several fronts and that it was no easy matter to institute our interim system of agricultural levies. The fact that we had decided to introduce such a system now, with all its consequences for our relations with such countries as Canada and the United States, was of great political significance. We deserved credit for it. M. Bernard agreed that our efforts in this respect were ~~not~~ always fully appreciated.

3. I said that for us the central enigma of the negotiations was the attitude of President Pompidou. M. Bernard said that M. Pompidou did not know Britain or really understand English. M. Bernard regretted that the efforts which he and I (in another capacity) had made in 1969 to arrange a visit from M. Pompidou to Britain had been overtaken by the departure of General de Gaulle. M. Bernard said that M. Pompidou's ignorance of Britain did not mean that he did not want Britain to join the Community. He was anxious for the negotiations to succeed and was planning on the assumption that they would.

/Success

SECRET

Success was very much in the French national interest. Failure would be a disaster for France and Europe but a catastrophe for Britain. The French would certainly be blamed for failure. France was everyone's scapegoat. I asked why the French were standing out on sugar. They seemed to want to be blamed. He replied that the present French position on sugar (which he implied was not for ever) was not unreasonable. But he admitted it was causing the French considerable embarrassment in their relations with the third world.

4. After some beating about the bush we spoke about the possibility of a meeting between M. Pompidou and Mr. Heath. I said that it would be very dangerous if it were not successful. M. Bernard said that it would require very careful preparation and, so far as the public was concerned, would have to cover the whole range of world problems. As regards the negotiations it was a single barrelled gun which could only be fired once. I said we were well aware of this. The advantages and disadvantages of such a meeting were very evenly balanced. We then left the subject.

5. Later in our conversation M. Bernard reverted to it by asking: When are our bilateral talks to start? He said it was already clear that the essential issues had to be decided by the British and French. He was sure that we had a shopping list. I said that this was not the way in which we envisaged a meeting, if any, between President Pompidou and Mr. Heath. The question was whether such a meeting would be the best way of advancing the negotiations. The alternatives were for M. Pompidou and Mr. Heath to deal with each other through their respective Ministers (here

/M. Bernard

M. Bernard indicated unmistakably that M. Schumann was not entirely an interlocuteur valable) or to allow the negotiations to continue as at present between the Six on one side and Britain on the other. At this point M. Bernard said quite clearly that he thought a bilateral meeting between President Pompidou and Mr. Heath would be necessary if the negotiations were to be successfully concluded.

6. I explained to M. Bernard some of the internal political considerations in Britain and I hope reassured him somewhat about British public opinion. I said for the May Ministerial meeting there simply had to be some positive result. Even if we did not then succeed in deciding all the essential issues, we must agree on something and give the British Government the assurance it had so far lacked that the negotiations would succeed. Once we had that assurance the negotiations would be transformed. M. Bernard asked when were we going to pull out the stops in our campaign to convince British public opinion. I said that the British had been bitten twice and were disinclined to risk the experience again until success was in sight. Then things would change very quickly.

7. M. Bernard said that President Pompidou did not face a problem with either his Parliament or public opinion. But he was subject to pressure from vested interests who were very ready to reproach the Government if those interests were sacrificed. So far as M. Pompidou was concerned, the best way in which he could convince the French, and in particular French industrialists, of the advantages of

/British

SECRET

British entry was to demonstrate some tangible gain. The gain he had in mind was access to the British market for French agricultural produce. Hence the French insistence on Community preference. This was more important to the French than anything else.

8. M. Bernard promised to keep in touch. As he left he assured me once more of M. Pompidou's will and belief that the negotiations should succeed.

(C.C.C. TICKELL)

16 March 1971

Copied to:

Private Secretary
Mr. Daunt
Sir T. Brimelow
Mr. Ford
Mr. Wiggin
Mr. Statham
Mr. Robinson
Mr. Drinkall

HM Ambassador, Paris

CONFIDENTIAL

18 March 1971

I sat next to the new Netherlands Ambassador at dinner yesterday, and there was a little conversation about British entry into the E.E.C. The Ambassador was interested to know whether we were disappointed about the results of the meeting earlier this week, and specifically with the intransigence of the French position on sugar. I said that at this stage the French posture seemed to us still to be consistent with a policy of tough negotiating tactics: we had no illusions about the French seeking to obtain the highest price they could. The lack of progress at this stage seemed to be largely attributable to the inability of the Six to reach a common negotiating position. We were not unduly disturbed by the relative lack of progress at this week's meeting, though I was sure that we should need to make more progress in May.

The Netherlands Ambassador went on to say that he detected the reappearance in French opinion in recent weeks of doubts about our readiness to accept the Treaty of Rome and the arrangements associated with it. The French have always been suspicious that we intended to go into the Community and then to try to modify it fundamentally from within, and we must understand that they would be quick to suspect any indication that that might still be our aim. There had been a number of public statements in recent weeks, not by members of the Government, which had

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- 2 -

been taken as fuel for these suspicions. We should need to dispel French doubts on this matter, and it might well be that this would have to be done at Prime Minister level.

I agreed that there might well be a case for a meeting between the Prime Minister and the President of the French Republic, at an appropriate stage.

I am sending copies of this letter to Crispin Tickell, Bill Nield and to Michael Palliser in Paris.

Sgd. R.T. ARMSTRONG

J.A.N. Graham, Esq.,
Foreign and Commonwealth Office.

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file HL
c.c. FCO
Sir W. Nield
Cabinet Office

18 March 1971

The Prime Minister was most grateful for the Chancellor of the Duchy of Lancaster's minute of 17 March reporting the E.R.C. negotiating meetings earlier this week. He may wish to discuss this with Mr. Rippon on Friday afternoon. It looks from the diary as if the meeting will have to be after 6.00 p.m. and I should be very grateful if you could reserve time on your side.

I am sending copies of this letter to Barrington (Foreign and Commonwealth Office), Sir William Nield (Cabinet Office) and Norbury (Cabinet Office).

(SGD) P.J.S. MOON

C. C. C. Tickell, Esq., M.V.O.,
Office of the Chancellor of the Duchy of Lancaster.

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Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in the Public Record Office.

HOUSE OF COMMONS HANDBOOK,

18 MARCH 1971, COLUMNS 1659-1666

"EUROPEAN ECONOMIC COMMUNITY"

Signed Al Wayland

Date 18/12/60

JP
J R Green
Prime Minister's Office Records
Hepburn House, Marsham Street



The attached Speaker's
Note refers to the
Record of Conversation
between the Chancellor
of the Duchy of
Lancaster and the
Belgian Foreign
Minister on 11 March

with compliments

P.A. M.

EUROPEAN INTEGRATION DEPARTMENT

Foreign and Commonwealth Office

S.W.1. 18 319 71

22/3

"SPEAKER'S NOTE"

=====

(Used by M Harmel)

Objet: Négociations d'adhésion.

Neuf mois après le début des conversations d'adhésion, le moment est venu de faire le point et de déterminer comment il sera possible de mener dans les délais requis les négociations à leur terme fructueux.

I

Ce qui manque le plus pour le moment à la négociation est l'absence de toute perspective d'ensemble. L'inexistence d'un négociateur communautaire favorise le fractionnement des dossiers, ce qui a pour conséquence que le Conseil arrête des positions communes secteur par secteur sans avoir une vue d'ensemble. Dès lors, chacun des sujets donne lieu à des discussions prolongées entre les Six, où l'on devrait éviter de rechercher un compromis entre les positions des différents Etats plutôt que d'essayer de répondre aux problèmes posés par l'élargissement de la Communauté.

Ceci soulève de graves critiques, car ce n'est qu'en comparant les problèmes à résoudre avec l'objectif à atteindre ou'il est possible de surmonter les difficultés immédiates. On a parfois l'impression que nous ne cherchons pas du tout les con-

(2...

ditions de la création d'une Communauté élargie, mais que nous négoçions un traité avec un Etat tiers et qu'il importe dès lors, par priorité, de sauvegarder les intérêts propres de la Communauté actuelle. C'est contre cette tendance qu'il est opportun de réagir et qu'il est sans doute important de rassurer nos partenaires sur nos intentions à cet égard.

II. Certains Etats de la Communauté estiment que l'élargissement étant inévitable, il convient de le réaliser dans des conditions aussi favorables que possible pour la Communauté et que, dès lors, il ne faut pas que celle-ci abatte ses cartes trop tôt. Cette position est d'autant plus dangereuse que la Grande-Bretagne nous donne parfois l'impression de faire le même raisonnement.

III. Cette absence de dynamisme de la part de la Communauté ne peut être surmontée simplement par une attitude flexible et imaginative de la part de la Grande-Bretagne. Comme il n'est ni politiquement, ni déontologiquement possible de demander à la Grande-Bretagne de faire de nouvelles propositions avant d'entamer la négociation, il faut examiner ce qu'il convient de réaliser dans l'immédiat.

IV. Sur le plan politique et psychologique, il importe de démontrer le caractère honnête (fair)

que revêt la recherche des solutions pour la période d'adaptation. Ceci peut être réalisé par la recherche immédiate des solutions pour le problème sucre et pour la Nouvelle-Zélande, et par la mise provisoire à l'écart d'un débat centré exclusivement sur les montants de la contribution britannique dans le domaine financier.

V. A. Il faut confirmer à la Grande-Bretagne le caractère global et politique de l'objectif qui est poursuivi.

B. Il faut essayer d'expliquer à la Grande-Bretagne l'idée que la Communauté se fait de la période de transition et de sa mise en oeuvre.

(1) Mise en oeuvre des décisions pour la période de transition.

La Grande-Bretagne va devenir, en ce qui concerne les droits, membre de la Communauté, dès que le Traité d'adhésion entrera en vigueur.

Cela a pour conséquence quelque chose de nouveau sur le plan politique et juridique: la mise en oeuvre du traité d'adhésion, l'exécution des modalités de la période transitoire, l'application des clauses de flexibilité et de soutien seront réalisées par les institutions de la Communauté élargie.

Ce ne seront donc pas les signataires du Traité:

les Six d'une part, les Etats candidats d'autre part, qui auront séparément à connaître des problèmes de la période transitoire, mais bien une institution juridique nouvelle née de la négociation, la Communauté élargie.

Ceci donne à la Grande-Bretagne une assurance de caractère plus fondamental que toutes les clauses de sauvegarde. L'entrée de deux représentants de la Grande-Bretagne dans la Commission qui sera chargée de superviser l'exécution communautaire du traité d'adhésion, la présence de la Grande-Bretagne comme grand état au Conseil qui aura à décider, l'inexistence de "clans" au sein de la Communauté, donnent au Royaume-Uni des garanties qu'aucun traité bilatéral n'a jamais pu donner.

(2) Conception communautaire de la période de transition.

- La période de transition doit permettre à l'Etat candidat de réaliser dans les meilleures conditions économiques, financières, sociales et politiques possibles, la mutation de sa situation d'Etat tiers à celle d'Etat membre de la Communauté. Cela signifie que la Communauté ne cherchera pas pour la période de transition à obtenir les solutions techniques les plus profitables pour les Etats membres.
- La période de transition doit être organisée de manière telle qu'à son issue et inéluctablement l'Etat candidat applique complètement les systèmes communautaires.

C. Il faudrait essayer, dès lors, de poursuivre la négociation concrètement

- sur tous les mécanismes de la politique agricole,
- sur le règlement des cas exceptionnels du sucre et de la Nouvelle-Zélande,
- sur la recherche d'un langage commun pour définir les principes qui doivent être respectés en ce qui concerne la période transitoire dans le domaine du règlement financier.

VI. Règlement financier.

A. Il nous paraîtrait hasardeux et peu opportun pour la Communauté de faire à ce stade une contre proposition chiffrée.

En effet:-

- il s'agirait nécessairement d'une évaluation, qui ne pourrait encore prendre en considération les résultats d'autres points actuellement en négociation (sucre, Nouvelle-Zélande);
- cette évaluation s'écarterait des propositions britanniques. Dès lors, toute la négociation se centrerait, dès ce stade, sur une contestation financière, qu'il serait difficile de surmonter puisqu'il serait impossible de se référer à des critères d'appréciation communs;

- cette évaluation serait le résultat d'un compromis à Six qu'il serait difficile de modifier au cours de la négociation.

B. Notre suggestion est, dès lors, de chercher à définir des principes qui, une fois adoptés par la Conférence de négociation, pourraient faciliter la fixation des modalités chiffrées pour la participation financière de la Grande-Bretagne pendant la période transitoire (cfr. V, B.)

Suggestions:

1. Le Royaume-Uni doit appliquer intégralement le système communautaire des ressources propres au moment où la période de transition prend fin. Ceci n'exclut pas, ainsi qu'il est dit plus loin, l'application éventuelle d'éléments "correctifs" pendant les premières années de la phase "définitive" de l'élargissement.
2. Les modalités transitoires doivent permettre à l'Etat candidat de faire sa mutation graduellement et sans chocs excessifs vers le régime d'Etat membre.
3. Eu égard à la nécessité d'assurer cette intégration graduelle, il serait logique de prendre en considération à un moment donné un chiffre terminal qui, tout en ne pouvant pas être calculé avec précision, devrait avoir un caractère plausible.

A partir de ce chiffre terminal, un décompte pourrait être effectué dans le temps.

Ce système paraît préférable à celui qui con-

sisterait simplement à retenir un chiffre de seuil qui serait tout aussi arbitraire et qui permettrait moins facilement la mise en place d'un système graduel au terme duquel s'applique, sans exception, le système des ressources propres.

Le chiffre au départ, résultant du décompte dans le temps, doit constituer, comme il est dit ci-dessus, une base raisonnable de négociation.

4. Compte tenu de l'impossibilité d'arrêter des chiffres précis, il paraît logique de prévoir, dès maintenant, un correctif pour le début de la période définitive, afin de tenir compte de l'éventualité où nos prévisions s'écarteraient de la réalité.

La période des "correctifs" doit être utilisée pour amener la Grande-Bretagne à supporter tels quels les montants découlant de l'application des ressources propres.

Pendant cette période de correctifs, le règlement financier, pour ce qui a trait aux règles, s'appliquera, c'est-à-dire que ce sera la Communauté qui prélèvera et non plus la Grande-Bretagne qui cotisera. Mais la Communauté ne prélèvera pas la totalité de ce que la Grande-Bretagne devrait payer, puisque les correctifs interviendront.

5. Nous suggérons de fixer les paliers successifs pour chaque année de la période de transition, sous forme de fourchettes, de manière à pouvoir

appliquer, dès le début, les principes du règlement financier. La Grande-Bretagne, pour s'intégrer graduellement dans le régime de la C.E.E., devrait appliquer, dès le début, les principes qui se trouvent à la base de ce régime, à savoir

- la cession des prélèvements à raison de 90%,
- celle, progressive des droits de douane, selon des modalités à déterminer,
- et, dans la mesure du nécessaire, un élément supplétif sous forme d'une contribution budgétaire.

6. Le décompte dans le temps devrait pouvoir être complété, vu les principes repris aux points 2 et 5, par l'application d'un élément régulateur valable pendant la période transitoire, afin d'assurer une progression régulière indispensable.

C. Remarques quant à la proposition britannique

Si l'on compare ces principes à la proposition britannique en matière de règlement financier, on constate deux divergences:

- (1) La Grande-Bretagne propose un système qui n'aboutit pas inéluctablement à l'application du régime des ressources propres. En effet, à l'issue des cinq ans plus les trois ans de "correctifs", la contribution britannique ne dépasse pas 16%.

S'il est vrai qu'aucun chiffre ne peut être cité avec certitude, il ne paraît guère vraisemblable que la participation britannique soit inférieure à 22 ou 23% d'un budget de 4,5 milliards d'unités de compte. (Cette évaluation du budget

paraît d'ailleurs excessive).

Or il nous semble que la période de "correctifs" doit également servir à amener nécessairement et graduellement la Grande-Bretagne à l'application pure et simple du règlement financier.

Dans le système actuel britannique, dit du "saut", deux objections principales doivent être retenues:-

- aucun Etat de la Communauté n'a pu voir augmenter sa contribution d'une année à l'autre de 4 ou de 5%. Dès lors, sans mettre en cause la volonté britannique d'accepter le régime des ressources propres, il se crée, sur base de la proposition britannique, un doute psychologique fondé sur l'expérience individuelle de chacun des Etats membres;
- la Grande-Bretagne pourrait peut-être théoriquement faire ce saut, mais celui-ci risque d'être dommageable pour son économie. Or, en vertu même des récentes décisions prises en matière économique et monétaire, les économies nationales ne sont plus du seul domaine de compétence des Etats nationaux. La Communauté toute entière est intéressée par l'évolution économique britannique et ne pourrait donc accepter d'être affectée par les conséquences d'une crise en Grande-Bretagne.

Il importe d'organiser la période de transition de manière à étaler les charges pour l'économie britannique sur l'ensemble de sa durée; ceci permettra le développement réel de l'économie britannique, puisque à aucun moment elle

ne serait exagérément taxée.

- (2) Le premier chiffre de la contribution britannique fixé à 3% crée des difficultés, car il est fixé trop bas.

Pour notre part, nous acceptons l'argument politique qui vise à fixer la première contribution britannique à un niveau aussi bas que possible, de manière à encourager les effets bénéfiques de l'élargissement sur l'économie britannique et à éviter des difficultés psychologiques et politiques.

Cependant, ce chiffre ne nous paraît pas correspondre à ce qui convient, pour deux motifs:

- (a) si l'on admet que dans le budget actuel de la Communauté 20% de dépenses sont consacrées à d'autres secteurs que ceux de l'application de la politique agricole commune, auxquels la Grande-Bretagne participera immédiatement à partir du 1er janvier 1973, il paraît normal qu'elle participe à ces dépenses sur base de la contribution prévue pour les grands Etats. Dans le Traité de Rome, la clé de contribution était fixée pour ces états à 28%. On peut admettre que dans une Communauté élargie il faille plutôt parler de 20%. En conséquence, une quote-part de 20% dans le cinquième ^{du} budget de la Communauté équivaut déjà à 4% du budget global.

- (b) Ensuite, dès le début la Grande-Bretagne participera à part entière à la vie de la Communau-

té; il est donc logique que le principe de la solidarité financière et communautaire, excluant toute notion de juste retour, puisse être appliqué.

Il peut donc paraître normal qu'on arrive à un montant un peu supérieur à celui qui n'occasionnerait pas de dépenses supplémentaires aux actuels Etats membres par suite de l'élargissement. Un chiffre de ce genre doit également pouvoir permettre l'établissement dans de bonnes conditions d'une courbe permettant d'échelonner de manière graduelle et croissante les contributions britanniques, jusqu'à l'application pure et simple du régime des ressources propres.

La Commission estime que la Grande-Bretagne doit contribuer entre 6 et 8% pour que les autres Etats membres ne contribuent pas davantage que maintenant.

Londres, le 11 mars 1971

SECRET

PRIME MINISTER

E E C NEGOTIATIONS AND YOUR VISIT TO BONN

You may like to have my impressions of the meetings here this week and their implications for your talks with Brandt.

2. In over six hours of discussions between themselves on Monday on Commonwealth sugar, New Zealand dairy products and Community finance, the Community made no significant progress towards a common position. In each case the French took an extreme position, and although there are differences of detail in the views of the Five and the Commission, the French were on this occasion isolated, and seen to be isolated on all the three main issues remaining to be settled in our negotiations. The atmosphere during this discussion seems to have been poor, with some blunt speaking, and renewed criticism of Schumann's partisan chairmanship. And we are told that Scheel, Moro and Luns took virtually no part in the restricted meeting after dinner, to demonstrate their dislike of Schumann's positions and attitude.

3. Given that genuine progress could not be made, the outcome was not unsatisfactory both for our own meeting yesterday and in setting the scene for your talks with Brandt. The Six had their row without us; the French position is regarded as unreasonable by all her partners; and there are no half-baked compromise proposals (which could not have been acceptable to us) on the table to mask the differences within the Community.

*I went back to
discuss on Friday
return.* (4)
4A

4. The resulting impatience and irritation on the Community side helped to give an easy passage to our proposal to try to reach agreement on the main issues in May. We all agreed to set aside 10, 11 and the afternoon and evening of 12 May for a series of meetings for this purpose and to envisage a further meeting later in the month if necessary. The meeting on the 10th will be one of the Six, without us. (But for the Germans, there would have been agreement to specify 18 May for this further meeting, and I have no doubt that we shall get it if we need it.)

5. People are, of course, asking themselves why the French isolated themselves so unreasonably. Some of the French delegation were not happy with their position, particularly on sugar. But, even if Schumann handled his position insensitively, it is obviously part of a deliberate strategy. I believe that the French are now constructing the best negotiating position for themselves in preparation for the crunch here, and also no doubt for any bilateral meeting with us. (There is some speculation here about the possibility of an Anglo-French meeting and I am sure that the sooner arrangements can be made and announced for your meeting with Pompidou - for which April is more than ever the right time - the easier it will be to present it as not being confined to Community issues. It might also be tactically wise to link this visit with plans to meet Colombo later on as part of the series.) The French fear that if they make concessions to their partners here before the crunch, they will have to pay a second time when the crunch with us comes. And they are right. They may also want to

demonstrate to us the ineffectiveness of the Five in order to strengthen their position in talking to us.

6. All this - and particularly the timetable which the Conference has now adopted - means that your talks with Brandt could not have been better timed. Scheel was apparently helpful in the Community's internal discussions on Monday, particularly on New Zealand and sugar. But German officials from von Braun downwards show no desire to stand up to the French, and we shall need Brandt's support.

7. The main points to get across to Brandt seem to me to be

- (a) the importance of the time-table we have now all set ourselves;
- (b) where our priorities lie;
- (c) our views on summitry; and
- (d) the importance of success for Germany's policies, as well as for the Community as a whole and for our own continuing position in European integration and cooperation in all fields.

8. As regards the time-table, we have June and July in reserve. But things could turn sour if they were to drag on for another four months. All the issues are now clear, and can be decided if there is the will.

9. You will want to let Brandt know that our priorities are low payments to the fund in the early years; something more for New Zealand than degressivity to half her present exports of butter and cheese; and reasonable assurances for quantities of sugar from the developing Commonwealth as well as prices. In return we could move to a somewhat higher financial contribution

at the end of our transitional period, and would try to meet French anxieties on Community preference in agriculture.

10. On summitry, I hope you will feel able to tell Brandt in confidence of your plans for meeting Pompidou. As I have said, there is already speculation here. And in any case Brandt should know that we see serious drawbacks in planning a summit of the Seven: I understand that Monnet may have written or be writing to Brandt to urge on him a summit of the Seven, which we do not want.

11. I am sending a copy of this minute to the Foreign and Commonwealth Secretary and to Sir Burke Trend.

G.R.

Geoffrey Rippon

17 March 1971

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RECORD OF CONVERSATION BETWEEN THE
CHANCELLOR OF THE DUCHY OF LANCASTER
AND THE PRESIDENT OF THE EUROPEAN COMMISSION

Palais Berlaymont 16 March 1971 at 1545 hrs

The Rt Hon Geoffrey Rippon QC, MP Signor Malfatti

Mr. Tickell Mr. Wellenstein

Signor Ruggiero

Interpreter

Signor Malfatti thanked Mr. Rippon for sending him a copy of his speech to the Harvard Business School Club on 9 March. He thought Mr. Rippon had made an admirable defence of the Community. He himself had learned a lot from the speech. He repeated his thanks to Mr. Rippon for his own most useful and enjoyable visit to London. He hoped that Mr. Rippon had not been misled by certain misinterpretations of what he had said about the timing of the negotiations at his London press conference.

2. Mr. Rippon said that he had indeed been cast in the role of defender of the Community during his visit to Canada and the United States. He had made the same points as in his speech to the Secretary of Agriculture, the Secretary of Commerce and the Secretary of State. The problems the British Government now had with the United States and Canadian Governments over the introduction of their interim scheme for agricultural levies well showed up the difficulties of applying Community preference from the moment of British entry into the Community. For that reason he liked the cautious approach of the Commission, which would allow us
/to get

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to get round difficulties of principle by dealing with problems commodity by commodity. In Washington he had been struck by the difference of view at different levels about the British EEC candidature. At the top everyone wanted the negotiations to succeed; further down the power of the various vested interests who saw themselves affected sometimes seemed to be uppermost. The essential issue for the Americans was that failure of the negotiations would have dangerous political and defence implications for them as for Europe and the rest of the world.

3. Mr. Rippon said that most of his North American discussions had been on agricultural levies and the future of the developing Commonwealth countries of the Caribbean. As Signor Malfatti knew, we wanted the Community to renew the 1963 Declaration of Intent in respect of these countries: we thought association was the best means of ensuring that the tropical products of these countries (excluding of course sugar) had - as was essential - continuing access to the British market. The Americans, on the other hand, did not like the prospect of any further extension of the European preferential area such as association of the Caribbean countries would give. Their main fear was, of course, that association would involve the grant of reverse preferences in favour of Europe. For that reason they had said that they would not include the countries who granted such reverse preferences in their offer under the Generalised Preference Scheme. The Caribbean countries therefore thought - and feared - that they were being

/obliged

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obliged to choose between Europe and the United States.

4. Mr. Rippon said that he had discussed ways out of this dilemma. We had asked the Community to freeze the existing arrangements with the Caribbean until 1975. This would give time after British entry to negotiate suitable arrangements. Whether these included reverse preference or not would then have to be decided. In the long term the right answer might be the conclusion of world agreements, in which the Community had shown interest, but these were a long way off and would be very hard to negotiate. The vital point for Britain was that something had to be done to assure the markets of the small developing countries for whom we had responsibility.

5. Signor Malfatti said that he had been particularly struck by the references in Mr. Rippon's speech in New York to the differences between the United States, British and European tariffs, and to the remarkable increase in American trade with the Community. The purpose of his mission to the United States, which he had just been discussing with the Six Foreign Ministers after lunch, would be to show that American fears were considerably exaggerated and that the complaints which each made of the other were often unjustified. It would be remarkable if there were no problems between the two largest trading areas in the world. In the long run a better relationship between the Community and the United States would depend on enlargement. In the meantime such minor problems as citrus fruits could be got out of the way. He also hoped to

/settle the

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settle the question of Community representation in Washington. The Community was thinking of sending a senior representative there to have the role if not the name of Ambassador.

6. Mr. Rippon said he was glad Signor Malfatti was going to the United States. There was a general tendency in the world towards protectionism. But according to the information he had received in Washington the Mills Bill was probably out of the running until next year. So far as Europe was concerned the important thing was to show a reasonable understanding of the position of Third Countries, such as the United States and to avoid too sudden changes which could upset trading patterns overnight. Signor Malfatti repeated that he was convinced that British entry into the Community would greatly improve relations between the United States and Europe. If the matter came up in Washington, he would say this, adding that he was neither optimistic nor pessimistic about the outcome of the negotiations.

7. Signor Malfatti said that he now wanted to turn to the negotiations themselves. If there was one thing which could really help them along at the moment it would be a clear British acceptance of the principles of Community preference. To some extent this went without saying; but just as we had declared our acceptance of the principle of ressources propres, so it would greatly help if we could do the same for Community preference.

/Mr. Rippon

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Mr. Rippon said that he was a little tired of new problems being presented to us as fundamental while the negotiations proceeded. So far we had given and given and given. Apart from New Zealand dairy products and sugar from the developing Commonwealth, the only problems which remained were transitional. Success means achievement of a docking operation. It would be a mistake to present Community preference as some new big issue. As Signor Malfatti had said himself, we accepted it by implication. Signor Malfatti agreed that we should seek to avoid any argument about it. He was very anxious it should not become a political problem and that the technicians should produce the answers without fuss.

8. Mr. Rippon said that after today's Ministerial meeting he had come round to the French view that it would be necessary to have a vue d'ensemble in May for Ministers to negotiate between them. In the meantime the Deputies would have to speed up their work and make the very full preparations necessary.

9. Mr. Wellenstein said that the application of Community preference was itself a docking problem. The Commission had produced a formula which he hoped would give the flexibility we needed and allow the problem to be solved. He had given a lot of thought to this and was sure that the formula he had suggested was the right one. He certainly would not like to take responsibility for any other one. Mr. Rippon agreed that this represented the best way forward. All problems were manageable provided we could get agreements on New Zealand dairy products, sugar from the /developing

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developing countries, a reasonable scale for our financial contributions to the budget during the transitional period (with a margin for negotiation over the years of correctives) and, of course, suitable arrangements, preferably association, for the developing Commonwealth countries of the Caribbean. On these things the Community simply had to come towards Britain. He hoped that real progress would be made in May and that all these problems could be dealt with together. Signor Malfatti agreed that the essentials must then be decided if possible. Mr. Rippon said that at the end of the day he must be able to say to Parliament and to British public opinion that we had made good arrangements for New Zealand and the developing Commonwealth.

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16 March 1971

The Prime Minister saw Professor Ehmke after Questions today, 16 March.

They agreed that when the Prime Minister meets Herr Brandt, a large part of the time should be spent in private talks or talks with only a small number of officials present.

There was some general discussion of the EEC negotiations. Professor Ehmke urged that it would be a mistake to become embroiled at this stage in further debate about figures for our financial contribution. The Prime Minister accepted that the next step should be to try to agree on principles, though he pointed out that politically it was difficult to explain to the country why our proposals on finance were unsatisfactory to the members of the community when the members themselves declined to give any reason.

At the end of the meeting there was some discussion of organisation of Government with particular reference to the Central Policy Review Staff. In the course of this, Professor Ehmke mentioned the Germans' concern about the oil situation.

(SGD) P.J.S. MOON

N. J. Barrington, Esq.,
Foreign and Commonwealth Office.

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FRAME

TO IMMEDIATE FCC TELNO CODEL 179 OF 16 MARCH INFO PRIORITY BORN
THE HAGUE LUXEMBOURG PARIS ROME INFO ROUTINE WELLINGTON INFO
SAVING WASHINGTON URMIS GENEVA BERNE OSLO COPENHAGEN HELSINKI
LISBON STOCKHOLM VIENNA REYKJAVIK DUBLIN OTTAWA CANBERRA AND
BRUSSELS.

ENLARGEMENT NEGOTIATIONS

EEC COUNCIL: 15 MARCH

THE COUNCIL BEGAN AT 4.33P.M. IN THE PERIOD BEFORE DINNER ALL
THREE SUBJECTS ON THE AGENDA, COMMONWEALTH SUGAR, NEW ZEALAND
DAIRY PRODUCTS AND COMMUNITY FINANCE WERE DISCUSSED INCONCLUSIVELY.

2. IN EACH CASE THE FRENCH WERE MORE OR LESS COMPLETELY ISOLATED.
BUT IN NO CASE DID SCHUMANN SEEK TO REACH A COMPROMISE:

HE MERELY PASSED ON TO THE NEXT POINT WHEN DEADLOCK WAS REACHED.
COMMONWEALTH SUGAR

3. MALFATTI (COMMISSION) BEGAN BY PUTTING A STRONG CASE FOR
GENEROUS TREATMENT OF THE DEVELOPING SUGAR PRODUCERS. MOREOVER
THE COMMUNITY COULD EASILY AFFORD TO BE GENEROUS SINCE COMMUNITY
CONSUMPTION WAS LIKELY TO GROW BY 100 - 150,000 TONS A YEAR.
THE DEVELOPING COUNTRIES WOULD GET ADEQUATE COMPENSATION FOR LOSS
OF VOLUME IN INCREASED PRICES. THEY REPEATED THAT FRANCE
HAD A (UNDERLINE NEXT TWO WORDS) VOCATION SUCRIERE.

5. THE OTHER MEMBER STATES ARGUED THAT THE QUESTIONS OF PRECISE
QUANTITIES AND PRICES SHOULD BE LEFT OVER UNTIL AFTER ENLARGEMENT.
SCHUMANN SAID THAT THEY WERE DOING THE BRITISH NO SERVICE BY
ARGUING IN THIS WAY: MR. RIPPON HAD MADE IT CLEAR IN HIS LETTER
TO MINISTERS THAT WHAT HE WANTED WAS A GUARANTEE ON PRICES AND
QUANTITIES AND THE FIVE WERE SEEKING TO OFFER SOMETHING WHICH WOULD
BE INADEQUATE TO US.

6. THERE WAS AN ATTEMPT BY DENIAU TO INTRODUCE A COMPROMISE FORMULA
BUT THIS GOT NOWHERE.

NEW ZEALAND DAIRY PRODUCTS

7. ON THIS SUBJECT THE DISCUSSION REACHED DEADLOCK EVEN MORE
RAPIDLY. THE BELGIANS FINALLY DEFINED THEIR POSITION ON QUANTITIES
AND SUPPORTED THE COMMISSION FORMULA. THE DUTCH OFFERED TO
GIVE UP THEIR INSISTENCE ON AN OFFER BASED ON MILK EQUIVALENTS

/AND TO AGREE

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AND TO AGREE WITH THE OTHERS THAT THE OFFER SHOULD BE EXPRESSED IN TERMS OF PRECISE QUANTITIES OF CHEESE AND BUTTER. BUT THERE WAS NO NARROWING OF THE GAP BETWEEN THE FRENCH AND THE OTHERS ON QUANTITIES; NOR ON THE FORMULA TO COVER THE PERIOD AFTER THE END OF THE TRANSITIONAL PERIOD IN THE EVENT OF AN INTERNATIONAL DAIRY PRODUCTS AGREEMENT NOT BEING NEGOTIABLE.

COMMUNITY FINANCE

8. DENIAU INTRODUCED THIS SUBJECT; SETTING OUT A NUMBER OF PRINCIPLES ON SIMILAR LINES TO WELLENSTEIN'S STATEMENT TO THE COMMITTEE OF PERMANENT REPRESENTATIVES ON 11 MARCH (CODEL TEL. NO. 175); BUT HE MENTIONED NO FIGURES. HE REFERRED TO THE TWO FIXED ELEMENTS, LEVIES AND CUSTOMS DUTIES WHICH SHOULD MOVE UP ON A LINEAR PROJECTION; AND THE BUDGETARY ELEMENT WHICH COULD BE FIXED ARBITRARILY AND WHICH THE COMMISSION BELIEVED SHOULD RISE ON A CURVE. THESE IDEAS FITTED IN WITH THOSE OF THE BELGIANS. THEY ALSO MET THE BRITISH WISH TO START SLOWLY AND TO ALLOW THE DYNAMIC EFFECTS OF ENTRY TO BE FELT BEFORE THE HEAVIEST BURDEN HAD TO BE CARRIED.

9. DENIAU SAID THAT IT WAS, HOWEVER, DIFFICULT TO START AT THE END OF THE TRANSITIONAL PERIOD AS THE BELGIANS HAD DONE. YOU COULD NOT HAVE A TARGET FIGURE BUT ONLY A TARGET ZONE WHICH HE DEFINED AS BETWEEN 2 OR 3 PERCENTAGE POINTS BELOW 25% AND 2 PERCENTAGE POINTS ABOVE.

X 10. HARMEL THEN DESCRIBED HIS OWN SIX PRINCIPLES, HAVING FIRST APOLOGISED FOR HAVING PREMATURELY PUT FORWARD PRECISE FIGURES WHICH HE REALISED TO HAVE BEEN A MISTAKE. HIS PRINCIPLES COULD EASILY BE FITTED INTO THE COMMISSION CONCEPT OF A TARGET ZONE. THEN ONE, TWO OR THREE YEARS OF CORRECTIVES COULD BE BUILT INTO IT. HE WAS INCLINED TO FAVOUR THE COMMISSION IDEA OF A PARABOLA RATHER THAN HIS OWN LINEAR PROJECTION.

X 11. HARMEL PROPOSED THAT THE COMMUNITY SHOULD DISCUSS HIS AND DENIAU'S PRINCIPLES WITH THE U.K. AND SHOW US THAT OUR OFFER DID NOT FIT IN WITH THEM.

12. THERE WAS NO ENTHUSIASM FOR THIS IDEA AMONG THE OTHER MINISTERS. BUT ALL MINISTERS APART FROM THE FRENCH SAID THAT THE HARMEL AND DENIAU PRINCIPLES WOULD BE A GOOD BASIS FOR INTERNAL COMMUNITY DISCUSSION AND PERHAPS FOR AGREEMENT.

13. BRUNET (FRANCE) SAID THAT THE BRITISH SHOULD WITHDRAW THEIR PROPOSALS AND SUBMIT NEW ONES. THE COMMUNITY HAD PUT CERTAIN PRINCIPLES TO THE U.K. ON 2 FEBRUARY AND THEY WERE OWED AN ANSWER.

14. SCHUMANN INTERVENING LATER TOOK A RATHER DIFFERENT LINE FROM BRUNET. HE FOUND SOME OF HARMEL'S IDEAS INTERESTING. SOME RAISED

/QUESTIONS AND

QUESTIONS AND SOME PROVOKED A NEGATIVE RESPONSE. BUT HE COULD NOT GO FURTHER WITHOUT A STUDY IN DEPTH BY THE PERMANENT REPRESENTATIVES AND WITHOUT DISCUSSING IT WITH HIS CABINET COLLEAGUES IN PARIS. 15. HARMEL PROTESTED THAT HIS IDEAS WERE NOT NEW. HE HAD REPELLED BEEN REPEATING WHAT HE HAD SAID SIX WEEKS AGO. SCHUMANN REPEATED THAT HE COULD GO NO FURTHER AT THE MOMENT.

16. WHEN SCHUMANN THEN SEEMED TO WANT TO CLOSE THE MEETING, MORO AND SCHEEL PROTESTED. THERE MUST BE SOME FURTHER ATTEMPT TO GET AGREEMENT. IT WAS FINALLY AGREED THAT THERE SHOULD BE A RESTRICTED SESSION AFTER DINNER. BUT THE FRENCH SUCCESSFULLY RESISTED AN ATTEMPT TO RESTRICT THE MEETING TO MINISTERS ONLY. RESTRICTED SESSION

17. LUNS BEGAN BY SAYING THAT HE WAS VERY WORRIED AT THE LACK OF PROGRESS. BUT FOR ONE COUNTRY PROGRESS COULD HAVE BEEN MADE. AFTER 16 MARCH THERE WERE ONLY TWO FURTHER MEETINGS WITH THE BRITISH BEFORE THE END OF JUNE. THEY HAD HEARD SCHUMANN'S VIEWS AS FRENCH MINISTER. BUT COULD HE NOT NOW HELP TO WORK OUT A COMPROMISE. HE REPEATED THAT HE WAS WORRIED, THOUGH NOT DRAMATICALLY WORRIED.

18. HARMEL SUPPORTED THIS LINE. HE PROPOSED THAT THESE THREE POINTS SHOULD BE DISCUSSED AGAIN BY THE COUNCIL ON 30 MARCH WITH THE WILL TO SUCCEED. IF THEY REACHED AGREEMENT THEN THIS COULD BE FED INTO THE DÉPUTIES ON 6 -7 APRIL.

19. SCHUMANN AGREED THAT THERE SHOULD BE A FURTHER DISCUSSION ON 30 MARCH. BUT HE ADDED THAT THERE WAS NO CERTAINTY THAT THEY WOULD REACH AGREEMENT THEN, ALTHOUGH HE HOPED THEY WOULD.

20. IN REPLY TO POINTS BY LUNS AND HARMEL THAT THIS DEADLOCK WAS HARMFUL FOR BRITISH PUBLIC OPINION, SCHUMANN SAID THAT IT WAS NOT A GOOD IDEA TO SEEK TO APPEASE THOSE BRITISH STATESMEN WHOM HE KNEW AND RESPECTED AND WHO WERE AGAINST ENLARGEMENT.

21. SCHEEL AND MORO DID NOT INTERVENE IN THIS DISCUSSION.

22. HARMEL THEN MADE A FURTHER ATTEMPT TO REACH A COMPROMISE ON SUGAR. DENIAU OFFERED AGAIN TO PRODUCE A COMPROMISE PROPOSAL QUICKLY WHICH WOULD COVER GIVING COMPARABLE ADVANTAGES TO THE YACOUNDE COUNTRIES AND THE IDEA OF TAKING INTO ACCOUNT THE DEGREE OF DEPENDENCE ON SUGAR OF THE INDIVIDUAL COMMONWEALTH COUNTRIES.

23. SCHUMANN SAID HE WAS HAPPY TO SUSPEND THE SESSION BUT THIS WAS ONLY WORTH WHILE IF THE MINISTERS WERE AGREED ON PRINCIPLES. WHAT WERE THEIR VIEWS?

24. THORN SAID THAT HE COULD AGREE TO A GUARANTEE OF 1 MILLION TONS. SCHEEL SAID THAT THEY SHOULD GUARANTEE 1.3 MILLION. EVEN THIS INFLICTED SOME PENALTY ON THE DEVELOPING SUGAR PRODUCERS WHO MIGHT HAVE HOPED TO HAVE PROFITED FROM THE RISE IN CONSUMPTION IN AN ENLARGED COMMUNITY, TO WHICH MAFATTI HAD REFERRED.

25. SCHUMANN INTERVENED TO SAY THAT THESE FIGURES WERE HOPELESS. HE WOULD HOWEVER MAKE A CONCESSION. FRANCE WOULD NOT INSIST THAT THE FIGURE BE LIMITED TO 500,000 TONS. FRANCE WAS READY TO SAY THAT THE QUANTITY SHOULD NOT BE LESS THAN 500,000 TONS.

26. THERE WAS GENERAL LAUGHTER. MANSCHOLT THEN INTERVENED. HE HAD BEEN STUDYING THE QUESTION OF SUGAR FOR THE LAST 25 YEARS. THIS WAS ONE OF THE MOST IMPORTANT COMMODITIES FOR THE DEVELOPING COUNTRIES AND FOR THE IMAGE OF THE COMMUNITY IN THE THIRD WORLD. EVEN IF FRENCH PRODUCTION INCREASED, THE COMMUNITY COULD AFFORD TO TAKE 1.3 MILLION TONS FROM THE DEVELOPING PRODUCERS. THEY HAD A SOCIAL RESPONSIBILITY TO DO SO. THERE WAS NO SOCIAL PROBLEM FOR FRANCE. THERE WERE NO SMALL SUGAR BEET GROWERS IN FRANCE, ONLY MILLIONAIRES WHOSE HOPE WAS TO INCREASE THEIR FORTUNES. THERE WOULD BE NO HARDSHIP FOR THESE BEET GROWERS IF COMMON-WEALTH SUGAR WERE ADMITTED.

27. SCHUMANN THEN AGAIN OFFERED A SUSPENSION. BUT LUNS SAID THERE WAS NO POINT. AND HARMEL SAID HE WITHDREW HIS REQUEST: THE ILLUSIONS THAT HE HAD HAD THAT AGREEMENT MIGHT BE REACHED NO LONGER EXISTED.

28. THERE WAS NO PRESS CONFERENCE.

FCO PASS SAVING TO WASHINGTON UKMIS GENEVA BERNE OSLO COPENHAGEN
HESLINKI LISBON STOCKHOLM VIENNA REYKJAVIK DUBLIN OTTAWA AND
CANBERRA. BRUSSELS SAVING PASSED.

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Chancellor of the Duchy of Lancaster

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

16 March 1971

Dear Peter,

You asked whether we could give a brief explanation of M. Deniau's principles on Community finance, and M. Harmel's principles, referred to in Codel Brussels telegram no. 179, paragraphs 8&10 respectively.

M. Deniau's principles appear to be that the British contribution should be made up of:

- (a) 90% receipts from levies;
- (b) 90% receipts from duties under the CET;
- (c) an arbitrary budgetary element.

It is not entirely clear that these are the "principles" referred to in Codel Brussels telegram under reference. It should be possible to give you any fuller explanation which may be necessary on the return tomorrow of the negotiating team from Brussels.

M. Harmel's principles, as explained to Mr. Rippon at their meeting on 11 March, are:

- (a) Britain must apply the ressources propres system at the end of the transitional period, although this does not exclude a corrective period afterwards;

/(b)

P. J. S. Moon, Esq.

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- (b) transitional measures should allow for a gradual movement towards the system of ressources propres;
- (c) it would be logical to think in terms of a plausible termination figure (i.e. to move backwards from 1978 instead of concentrating on the starting figure);
- (d) there should be a corrective period after the five-year transitional period;
- (e) there should be flexibility during the transitional period in the upper and lower limits of the British contribution. Britain should pay 90% of her receipts from levies, 90% of her receipts from duties and, as necessary, a budgetary element;
- (f) there should be a regulatory element in the transitional period to ensure smooth progression.

Yours ever

Michael Pakenham

(M. A. Pakenham)
Assistant Private Secretary

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European Policy

EEC Pt. 4.

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cc Dind. 1/1/1971

Cab App

11

16 March 1971

Professor Arndt called on the Prime Minister at 10.30 on this morning, 16 March. He was accompanied by the German Ambassador.

The only subject discussed was the British application to join the European Communities. Professor Arndt suggested that during his visit to Bonn the Prime Minister should press the German Government to take a clearer and more determined stand. Public opinion in Germany was definitely in favour of enlargement of the E.E.C. Since the days of Chancellor Adenauer there was, however, a sentiment in Germany that the French were their friends (as indeed they were), but this tended to create an "order of values which was unfortunate". Professor Arndt did not think that France was against British entry but that they intended to drive the hardest possible bargain on agriculture which was neither in the interest of Britain nor that of Germany. He thought that it was unreasonable of the Six who, in ten years had established a system to suit their own requirements, to expect third countries immediately to accept every rule and regulation without discussion. He feared that if the current negotiations failed this failure would be final.

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- 2 -

The Prime Minister agreed that the problem was now more difficult than in 1953 because the Community was largely formed. Commenting on this, Professor Erhard said that the Community was only formed in the sense that market regulations and the agricultural pattern had been established. But the most important tasks were still outstanding. The Community remained a customs union and was still far from being an economic union. Now was the time for Britain to come in to take part in tackling the really essential problems.

Professor Erhard agreed that it would be of great importance for the enlarged Community to establish the right relations with the outside world. It would be necessary to avoid rigid blocks. Germany was particularly conscious of this because of the suspicions ^{which} still attached to them. This was another reason why they wanted to see Britain inside the Community, since this would improve the balance.

Speaking at the end of the meeting of inflation, Professor Erhard said that he feared that not sufficient attention was being given to this. There were now price rises in Germany of 4%, 5% and 6%. He believed that once you reached a rate of increase of 5% there was a change in the social climate. There was uncertainty about the future and people no longer saved. There was less self-reliance and a move towards collectivism as the only means of security. The inevitable consequence was that society was pushed towards socialism. He congratulated the Prime Minister on the measures which the British Government was taking to deal with Britain's economic problems and particularly the problems of industrial relations.

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- 3 -

I am sending a copy of this letter to Tickell
(Office of the Chancellor of the Duchy of Lancaster)
and Morbury (Cabinet Office).

SGD P.J.S. MOON

N.J. Farrington Esq.,
Foreign and Commonwealth Office.

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Europe - Policy

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15 March 1971

The Prime Minister met the Foreign and Commonwealth Secretary and the Chancellor of the Duchy of Lancaster today 15 March to discuss the Community negotiations. Sir Con O'Neill and Sir William Nield were also present.

The Chancellor of the Duchy of Lancaster described the timetable which he foresaw. He did not think there would be a great deal of progress at the meeting on 16 March though he would have something to say on New Zealand dairy products and sugar and there could be discussion of Community preference. There would be enough to present the meeting as having resulted in a useful exchange. The Chancellor's main purpose would be to press for a two day meeting in May at which we would hope to reach decisions on the major issues and, if need be, we should be ready for a battle then. This would leave the June and July meetings to fall back upon if we were not successful in May, and still enable us to complete the major negotiations before the summer break. After the March meeting the atmosphere should be one of urgency but not crisis.

In subsequent discussion it was agreed that it was probably optimistic to expect to get agreement in May. In considering our negotiating tactics, it was necessary to keep in mind how we saw the negotiations being concluded at the end of the day.

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